

# Industry Update and RBC Development ---China



**Sharon Huang, FSA, FCAA**  
**Consulting Actuary**  
**Milliman Ltd.**

**IAA Fund Seminar**  
**14 October 2013**  
**Singapore**



# Industry Update

FitchRatin



17 May 2012  
Asia Pacific  
Equity Research  
Insurance / MARKET WEIGHT

25 March 2013 | 8 pages

## 2013 Outlook

From Market Share  
Outlook Report

Rating Outlook  
**STABLE**

## China Insurance: Sector

- **Life premium growth still sluggish** — Life pre new business volume stayed weak. China Lif negative premium growth in 2M13. The key out 15% premium growth for its life business.

## NJA Insurance Weekly

WEEKLY ANALYSIS

### 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).

Research Analysts  
Regional / China, HK & SEA  
Arjan van Veen  
852 2101 7508  
arjan.vanveen@credit-suisse.com

Frances Feng  
852 2101 6693  
frances.feng@credit-suisse.com

Australia  
John Blagovest

MOODY'S

Find ratings, research, analysts and more

Research & Ratings ▾ Products & Solutions ▾ News & Events

MOODY'S  
INVESTORS SERVICE

Rating Action: **Moody's affirms China Life's A1 rating; changes outlook**

Global Credit Research - 16 Apr 2013

Hong Kong, April 16, 2013 – Moody's Investors Service has affirmed the A1 insurance Ltd. At the same time, Moody's has changed the rating outlook of China Life to stable

BEST'S SPECIAL REPORT  
*Our Insight. Your Advantage.*

China Non-Life and Life

Market Review  
October 8, 2012

## The China Market in Transition: Sharpening for Sustainability

Regulatory  
Developments  
Could  
Spur More  
Sophisticated  
Market  
Practices.

**T**he 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

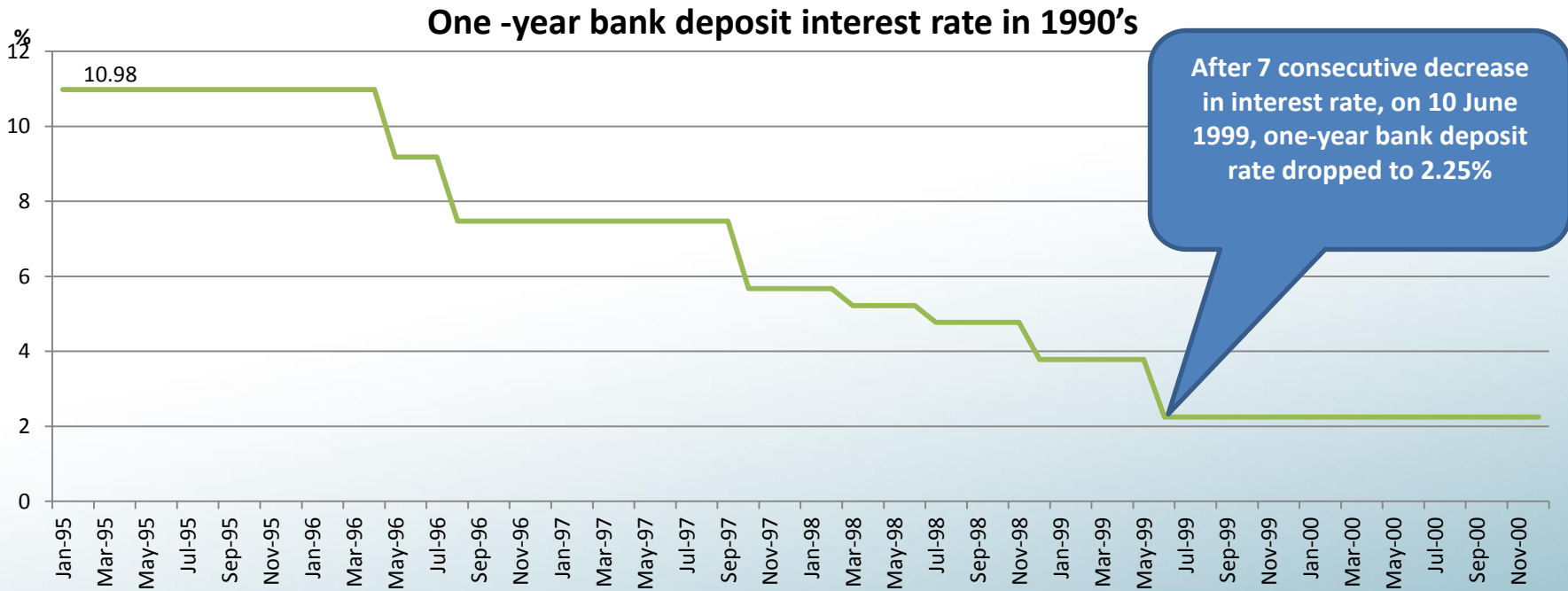
## ■ Human Resources

# 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



# 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.

	Pricing Rate/Minimum guaranteed rate		Reserving Rate	
	Before 5 Aug 2013	After 5 Aug 2013	Before 5 Aug 2013	After 5 Aug 2013
<b>Traditional Non-par</b>	Capped at 2.5%	No cap limit. But need to get prior-approval from CIRC if pricing rate higher than 3.5%	Capped at min ( pricing rate, 2.5%)	Capped at min ( pricing rate, 3.5%*)

\*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%)

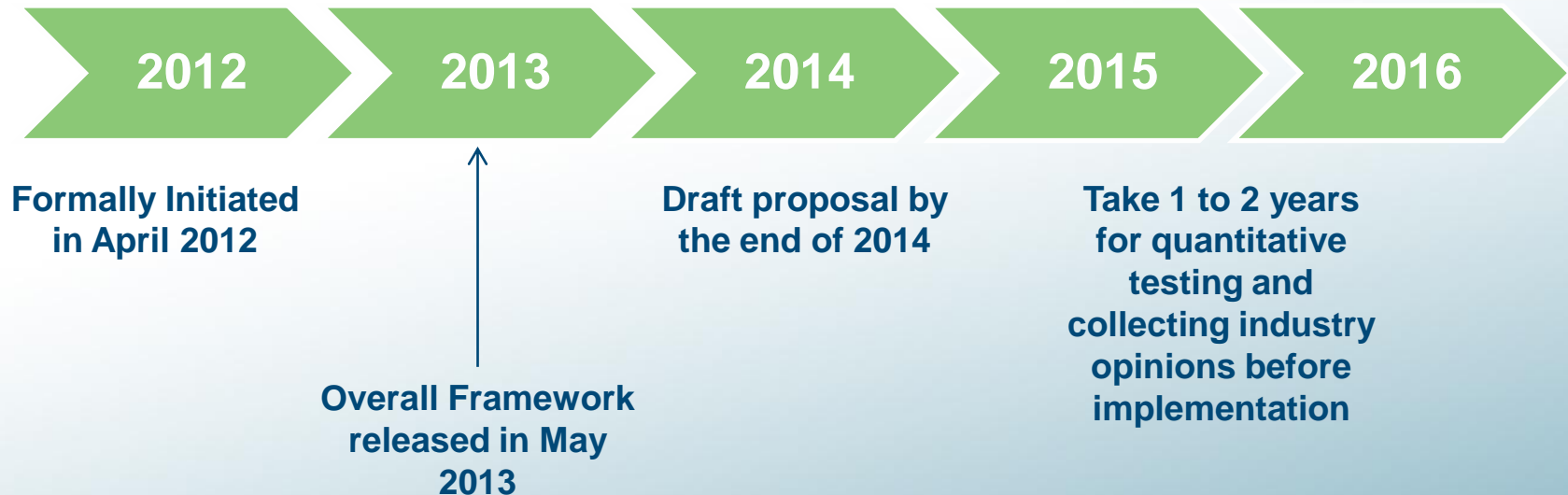
## ■ Distribution channel: go online

- 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

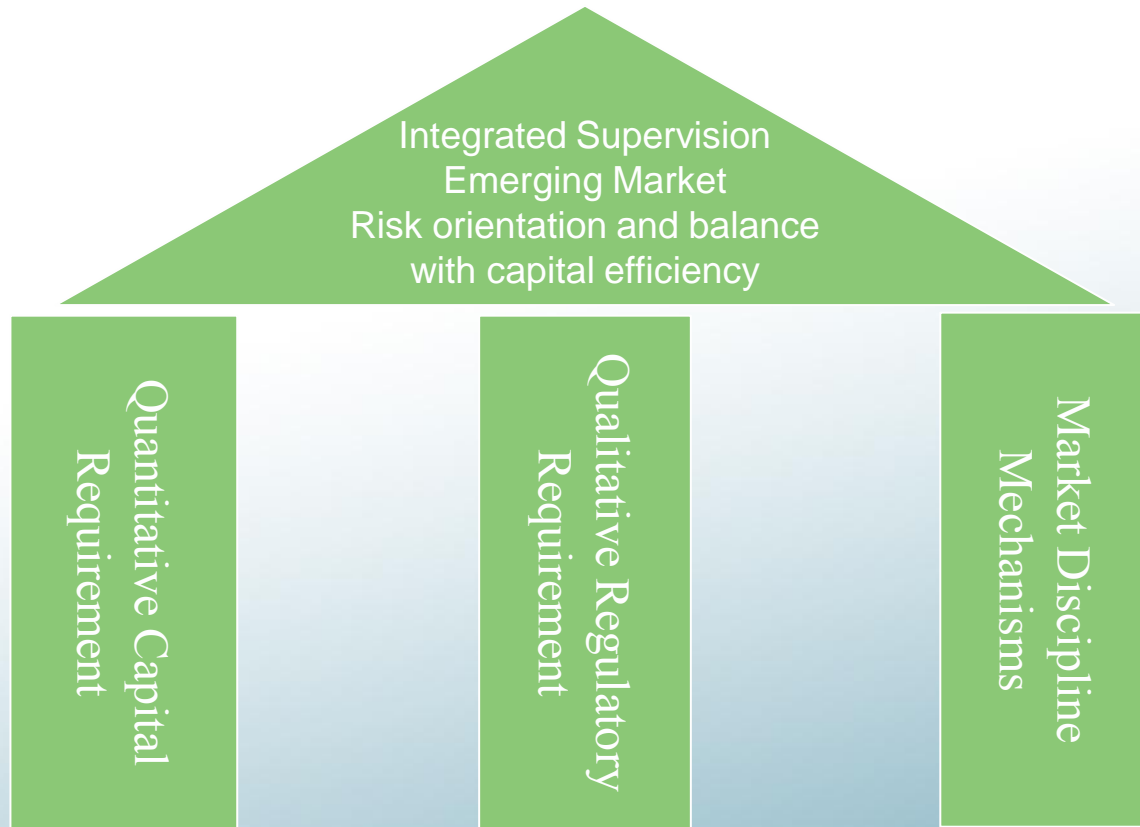
- Existing solvency regime does not align risk with required capital
- China's 2<sup>nd</sup> generation solvency regime: C-ROSS ( China Risk Oriented Solvency System )

## Timeline in Plan



# 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

## Phase 1 ( April 2012 )



- Assessment of China's existing solvency regime
- Comparative analysis of China's existing solvency regime, EU Solvency II and RBC
- Overall framework
- Underwriting risk of P&C insurers
- Underwriting risk and Interest rate risk of life insurers
- Investment risk

## Phase 2 ( August 2013 )



- Correlation between various risks
- Valuation standards on asset and liability
- Dynamic solvency testing
- Actual Capital Available and Capital Tiering
- Insurance Company Risk Management Requirement and Assessment
- Liquidity risk
- Information Disclosure
- Solvency Regulation on Insurance Group Company

# Disclaimer

- The views expressed in this presentation are those of the presenter, and not those of the presenter's employer.
- Nothing in this presentation is intended to represent a professional opinion or be an interpretation of actuarial standards of practice.
- This presentation is intended solely for educational purposes and presents information of a general nature. It is not intended to guide or determine any specific individual situation and persons should consult qualified professionals before taking specific actions.
- Neither the presenter and the presenter's employer shall have any responsibility or liability to any person or entity with respect to damages alleged to have been caused directly or indirectly by the content of this presentation.

# Thank You !

## Contact Information:

Sharon Huang, FSA, FCAA

Tel: +8610 8523 3189

Email: [sharon.huang@milliman.com](mailto:sharon.huang@milliman.com)