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PEOPLE'S REPUBLIC OF CHINA

FINANCIAL SECTOR ASSESSMENT PROGRAM

December 2017

DETAILED ASSESSMENT OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES

This Detailed Assessment of Observance of the Insurance Core Principles on the People's Republic of China was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in December 2017.

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DETAILED ASSESSMENT OF OBSERVANCE

INSURANCE CORE PRINCIPLES

Prepared By

Monetary and Capital Markets Department, IMF and Finance and Markets Global Practice, World Bank

This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in China during November–December 2016, led by Simon Gray, IMF and Miquel Dijkman, World Bank, and overseen by the Monetary and Capital Markets Department, IMF, and the Finance and Markets Global Practice, World Bank. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx, and www.worldbank.org/fasp.

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Glossary

AIA	American International Assurance Company
ALM	Asset and Liability Management
ASBE	Accounting Standards for Business Enterprises
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CAA	China Association of Actuaries
CAMELMAC	China Anti-Money Laundering and Analysis Center
CARP	China Agricultural Reinsurance
CBRC	China Banking Regulatory Commission
CICPA	Chinese Institute of Certified Public Accountants
CIRC	China Insurance Regulatory Commission
CISF	China Insurance Security Fund
CMG	Crisis Management Group
CNIP	China Nuclear Insurance Pool
CPA	Certified Public Accountants
C-ROSS	China Risk-Oriented Solvency Standards
CREIP	China Residential Earthquake Insurance Pool
CSRC	China Securities Regulatory Commission
DRD	Development and Reform Department
D-SII	Domestic Systemically Important Insurer
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
FSAP	Financial Sector Assessment Program
FIU	Financial Intelligence Unit
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles
G-SII	Global Systemically Important Insurer
IAA	International Association of Actuaries
IAIS	International Association of Insurance Supervisors
IAC	Insurance Association of China
IAMC	Insurance Asset Management Company
ICP	Insurance Core Principles
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGT	Intra-Group Transactions
IRR	Integrated Risk Rating
IT	Information Technology
JMC	Joint Ministerial Conference
MCR	Minimum Capital Requirement
ML/FT	Money Laundering/Financing of Terrorism
MOCE	Margin Over Current Estimate

MoF	Ministry of Finance
MoU	Memorandum of Understanding
MMoU	Multilateral Memorandum of Understanding
NAIC	National Association of Insurance Commissioners
OTC	Over-the-counter
ORSA	Own Risk and Solvency Assessment
OSSRM	Off-site supervision and risk monitoring
PBC	People's Bank of China
PCR	Prescribed Capital Requirement
P&C	Property and Casualty
PICC	People's Insurance Company of China
RMB	Renminbi
RRP	Recovery and Resolution Plan
SAFE	State Administration of Foreign Exchange
SARM	Solvency-Aligned Risk Management
SARMRA	Solvency-Aligned Risk Management Requirements and Assessment
TVOG	Time value of embedded options and guarantees

EXECUTIVE SUMMARY[1]

The Chinese insurance sector is experiencing rapid growth, posing particular challenges to effective supervision. The sector has been growing by over 20 percent a year and there are ambitious government targets for further development. Many individual, often newer, companies are growing at rates far in excess of the average. New entrants, products and distribution channels, combined with the liberalization of pricing, have increased competition. At the same time, slower economic growth and reduced investment returns are exposing many established life insurers to the risk of loss due to the rising value of their liabilities. Many non-life companies are moving into new lines of business as margins in established lines erode. While their customers continue to benefit from a dynamic market, there are risks to insurance companies' business models, performance and to solvency as well as risks of misconduct in the treatment of insurance customers. There are particular challenges for insurance supervisors to remain abreast of developing risks, while continuing to strengthen the regulatory and supervisory system for the longer term.

The China Insurance Regulatory Commission (CIRC) has been undertaking far-reaching reforms and modernization since the 2011 FSAP. It has focused its work on improving corporate governance, enforcing sound market conduct and reshaping the solvency standards into a modern, risk-based approach. The China-Risk Oriented Solvency Standards (C-ROSS) draw on international practices and experience in the Chinese market to define solvency requirements that generally reflect risk as well as rewarding sound risk management. By linking the framework to an in-depth assessment of risk management, C-ROSS has also equipped CIRC with a strengthened overall supervisory framework for solvency risk. As a result, CIRC has felt confident to relax or remove less risk-based requirements such as new product (and reinsurance contract) approval as well as detailed limits on insurers' investments. In parallel with regulatory changes, it has been working to reform and develop the insurance market, liberalizing pricing controls and accommodating the development of new products, although restrictions remain on the access of foreign insurers, especially in life insurance.

Overall, the Chinese regulatory system is assessed to have a good level of compliance with the Insurance Core Principles (ICPs). The regulatory framework includes, in addition to the solvency standards, extensive requirements on corporate governance, risk management and internal controls as well as on reinsurance, disclosure and conduct of business. All these requirements are applied appropriately to the significant number of large insurance groups, which together account for the bulk of premium income (by contrast, the international operations of Chinese groups are particularly limited). CIRC has developed a tailored approach to the one Global Systemically Important Insurer (G-SII) for which it is lead supervisor and is preparing a similar regime for Domestic Systemically Important Insurers (D-SII). It cooperates with other regulators internationally, including in relation to the large number of insurers and reinsurers doing business in China as branches, subsidiaries or joint ventures. CIRC has extensive intervention and enforcement powers which it is prepared to use.

[1] This assessment was carried out by Ian Tower (IMF Expert) and Serap Gonulal (World Bank) from November 28 to December 17, 2016.

While the approach to failing insurers has not been fully tested, there are extensive legal provisions and a funded insurance guarantee scheme to support orderly exit while providing for policyholder protection.

The assessment has also identified areas for development, mostly building on recent progress. While there is strong focus on governance, market conduct and solvency, there is no part of the supervisory process that brings together the overall view of a particular insurer and ensures that the allocation of supervisory resources is applied to mitigating the highest priority risks. This is particularly important in relation to larger insurers, where there is scope for more proactive assessment and relatively greater resourcing to reflect the significance of these entities. As most of these are parts of insurance or wider groups, this is likely to require increased resources for insurance group supervision or a stronger system of lead supervision. Despite the good collaboration across CIRC departments, there is a risk that issues may be missed or groupwide risks not readily identified. Similarly, there is scope for increased cooperation with other agencies, including between CIRC and China Securities Regulatory Commission (CSRC) in relation to asset management issues and with foreign regulators; and for CIRC to develop an approach to the recognition of other supervisors in respect to licensing and groupwide supervision.

There is also scope for further development of crisis preparedness and market conduct work. More should be done on crisis management with larger groups, building on the progress on crisis preparedness, recovery and resolution planning that has been made with the G-SII. CIRC's focus on market conduct has benefited from a dedicated consumer protection function and increasing thematic work. It would be timely to review the risks, including of mis-selling, and develop a plan for the direction of supervisory resources as well as to fill some gaps, particularly in relation to disclosures, in the otherwise extensive framework for the supervision of intermediaries.

It is not too early to plan for the further development of C-ROSS. Implementation of this major reform needs time to be more fully embedded. For the next stages, it will be appropriate for CIRC to plan for further movement to a more market consistent basis for valuation, taking account of local market conditions, and to incentivize the development of more complex approaches in areas such as the valuation of options and guarantees. The processes associated with C-ROSS put a particular weight on CIRC's role in issuing risk ratings and delivering risk management assessments. It has elements that are more mechanistic than judgmental and could be developed to expand the role of supervisory judgment in the "Pillar 2" process. Such a development would in principle be strongly supported by the development of a full Own Risk and Solvency Assessment (ORSA) regime. At present, there is limited role in the C-ROSS process for the insurer's own quantification of risks and solvency requirements. Elsewhere in the framework, there may be a need for a reduced scope for supervisory judgment: it is recommended that CIRC review its approach to solvency control levels to ensure that it is clear at what point it will intervene above the minimum requirements. There may also be a need to improve public understanding of the various disclosures associated with the C-ROSS framework.

Changes to the legislative framework are also recommended to strengthen the ability of CIRC to undertake effective regulation and supervision in the future. While CIRC has clear statutory objectives and enjoys a high degree of day-to-day operational independence in the fulfilment of its supervisory responsibilities, aspects of the framework within which it operates expose it to undue political influence, particularly through its funding mechanism, and to constraints on its ability to staff and organize itself as is necessary to meet its objectives. Its mandate and functions as well as its internal organization are established by the State Council and there is scope for conflict between its regulatory and development objectives, particularly given the strong Government of China commitment to the growth of the insurance market, in which CIRC plays a vital role. It is recommended that the authorities review the legislative framework for insurance to strengthen the independence of CIRC.

ASSESSMENT OF INSURANCE CORE PRINCIPLES

A. Introduction and Scope

1. This assessment of insurance regulation in China was carried out as part of the 2016–17 Financial Sector Assessment Program (FSAP).

2. The assessment has been made against the ICPs issued by the International Association of Insurance Supervisors (IAIS) in October 2011, as revised up to November 2015. The ICPs apply to all insurers, whether private or government-controlled. Specific principles apply to the supervision of intermediaries. The institutional arrangements for financial sector regulation and supervision are outlined in Section C.

B. Information and Methodology Used for Assessment

3. The level of observance for each ICP reflects the assessment of its standards. Each ICP is rated in terms of the level of observance as follows:

a) ***Observed*:** where all the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and exercises this authority to a satisfactory level.

b) ***Largely observed*:** where only minor shortcomings exist, which do not raise any concerns about the authorities' ability to achieve full observance.

c) ***Partly observed*:** where, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.

d) ***Not observed*:** where no substantive progress toward observance has been achieved.

4. The assessment is based solely on the laws, regulations and other supervisory requirements and practices that are in place at the time of the assessment in December 2016. While this assessment does not reflect new and on-going regulatory initiatives, key proposals for reforms are summarized by way of additional comments in this report. The authorities provided a full and comprehensive self-assessment, supported by anonymous examples of actual supervisory practices and assessments, which enhanced the robustness of the ICP assessment.

5. The assessors are grateful to the authorities and private sector participants for their cooperation. The assessors benefitted greatly from the valuable inputs and insightful views from meetings with CIRC, insurance companies and industry and professional organizations.

C. Overview—Institutional and Macroprudential Setting

6. The CIRC is the principal entity responsible for insurance supervision in China. CIRC is a ministerial public service department, which reports to, and carries out administrative functions delegated by, the State Council. CIRC is responsible for supervision of insurance, reinsurance, insurance asset management companies (IAMCs), insurance brokers and agents in China. CIRC is financed by levies on insurers' capital and net retained premiums. CIRC has 36 regional bureaus as well as its head office in Beijing.

7. The supervision of insurance companies in China is largely based on the Insurance Law. Insurers have to comply with other acts as well as regulations and rules issued by CIRC. The Insurance Law regulates the organization and conduct of insurance business and prescribes the rights and obligations of organizations and individuals participating in insurance business. China is a member of the IAIS, but is not a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU) on Cooperation and Information Exchange.

Industry Structure and Recent Trends

8. In 2015, Chinese insurance market was the third largest in the world. Total industry premiums were 3.59 percent of GDP and total assets amounted to RMB 12.3 trillion. The average Chinese citizen spends approximately US$280 per year on insurance. Total gross insurance income of RMB 2.4 trillion was recorded in 2015. China is the largest non-life market in Asia and the second largest life market in Asia after Japan. As of the end of 2015, there were 75 life insurance and 74 nonlife insurance companies in the market, among which 52 were domestic companies and 22 were "foreign invested" companies (see Table 1).

9. Life insurance accounted for 56 percent of gross premiums in 2016, typical of an advanced economy. The total written premium of the life insurance sector excluding personal accident and health in 2014, 2015 and 2016 respectively amounted to RMB 1,090,160 million, RMB 1,323,925 million and RMB 1,744,222 million . Participating business throughout the decade has taken approximately 52 percent of the market as it has provided a reasonably consistent and stable profit margin for the insurers and offers the possibility of an enhanced return to the policyholders. Investment-linked insurance is not a mainstream product in China and only accounts for a miniscule fraction of the premium income of China's life insurance sector (see Table 2).

Table 1. China: Insurance Penetration in Selected Countries, 2015

	Life		Non-Life		Total		Share of World Market	Premium Volume
	Percent of GDP	Per Capita (USD)	Percent of GDP	Per Capita (USD)	Percent of GDP	Per Capita (USD)	Percent	In millions of US dollars
China	1.94	153.1	1.65	127.6	3.59	280	8.49	386,500
Japan	8.27	2717	2.55	836.0	10.82	3553.8	9.88	449,707
India	2.72	43.2	0.72	11.5	3.44	54.7	1.58	71,776
Russia	0.17	14.8	1.19	102.3	1.36	117	0.37	16,801

Sources: Axco Global Statistics, SwissRe, and CIRC.

Table 2. China: Premiums Written in 2016

	Life Including Personal Accident and Healthcare	Non-Life	Total
Premium (millions of renminbi)	2,223,461.28	872,449.81	3,095,911.09
Premium (millions of US dollars)	334,632.95	131,304.49	465,937.44
Percent of total market	71.8	28.2	100

Source: Axco Global Statistics.

10. In 2015, motor insurance accounted for over 73 percent of total non-life premiums. Historically, growth in the Chinese insurance market has been underpinned by motor lines, which accounted for 73 percent of total property and casualty (P&C) insurance premiums in 2015. The second largest premium line, commercial property, has seen more modest growth. The underlying reason for China's consistently strong non-life premium growth is the surging number of private cars, which rose by over 20 percent a year between 2003 and 2015. The only clear upward trend in share of premium has been in the agricultural and medical insurance lines. Personal Accident and Healthcare Insurance account for close to 14 percent of premiums written. This type of insurance may be written by both life and non-life insurers.

11. China's life and non-life insurance market are highly concentrated. The top 10 insurance companies account for nearly 76 percent of Gross Premiums Written. With the exception of American International Assurance Company (AIA), life insurance business is not open to foreign companies except through joint ventures where the foreign shareholder may have up to 51 percent of the equity. The non-life business is also highly concentrated and dominated by People's Insurance Company of China (PICC) Property and Casualty Company Limited (33.4 percent), Ping An

Property and Casualty Insurance of China (19.4 percent) and China Pacific Property Insurance Company (11.2 percent).

12. Distribution channels are mostly traditional, with the majority of sales being transacted through agents. In China, the insurance distribution system comprises insurance agents, insurance brokers, direct sales (by insurers), and emerging channels such as the internet. Chinese laws make a clear distinction between insurance agents and insurance brokers. In a nutshell, agents act on behalf of insurers, while brokers act on behalf of policyholders. Specifically, insurance agents are institutions or individuals who, in exchange for commissions from insurers, engage in insurance activities on their behalf within the scope so authorized. Among agents are specialized insurance agencies which are exclusively engaged in agency distribution, and ancillary insurance agencies engaged in agency distribution concurrently with other businesses. The *Insurance Law* provides that an individual agent may only sell life insurance products on behalf of one life insurer, while insurance agencies are not subject to this restriction. Insurance brokers, on the other hand, are institutions that provide intermediary services to facilitate prospective policyholders and insurers in concluding the insurance contract. They act in the interest of policyholders and collect fees from them in accordance with the law.

13. The share of the bancassurance channel is growing: it accounts 40 percent in life but is far less significant in non-life. The agents are supported by relatively high levels of commission. The bank channel went into a temporary decline from 2012 as a result of regulatory restrictions and the falling competitiveness of life policy returns relative to other investments. The channel is now growing again, boosted by the increasing number of banks that have bought shares in their own insurance companies. Insurers are simultaneously increasing both the size and productivity of their agency forces, helped to a large extent by tablet computers which allow illustration, application and payment to be concluded in a single meeting. The fastest growing channels are telemarketing, cross-selling and the mobile internet, which increasingly work together in an "online-to-offline" business model.

14. The compulsory insurance lines in China are motor third party liability, carriers' liability and travel agents' liability. No other insurance products are defined as compulsory insurance by laws or regulations. In line with government objectives on the development of liability insurance, local governments also encourage and guide insurance companies to promote liability insurance for environmental pollution, food safety, medical accident, campus safety and other areas, but these are not compulsory insurance as defined. Because the compulsory classes are intended to serve social purposes, insurers are sometimes required to pay deserving claims regardless of their strict policy liability.

15. As the end of 2015, the total assets of life and non-life insurance companies amounted to RMB 9,944 billion and RMB 1.8 trillion respectively. The life industry achieved total profit of RMB 174.32 billion while non-life insurance premium income reached RMB 842.17 billion.

16. The market includes three main insurance pools. The China Residential Earthquake Insurance Pool (CREIP) was created by 45 primary insurers on April 16 2015. The pool is led by PICC

Property and Casualty Company Limited which was appointed as the executive office with responsibility for product design, premium rating and risk diversification. The scheme will cover damage by earthquakes of magnitude 4.7 and above, fire following, tsunami and subsidence or landslide caused by earthquake. The basic sums insured will be RMB 50,000 for urban homes and RMB 20,000 for country homes. The CREIP has developed model products that guarantee a basic level of protection, have a wide coverage, and are both affordable and appealing, with urban and rural residential houses as the object of insurance and destructive earthquakes and the secondary disasters they cause including tsunami, mudslide and landslide as insured liabilities. Members of CREIP have started selling individual household earthquake policies on a voluntary basis, the first policy being sold on July 1, 2016. The average rate is reported to be 0.04 percent.

17. The China Agricultural Reinsurance Pool (CARP) commenced operations on 1 January 2015 under the administration of China P&C Re. Although 23 direct insurers are also members of the pool, China Re was expected to write around 80 percent of the pool's estimated premium income of RMB 3.7 billion in 2015. Direct insurers which join the pool are allowed to use other reinsurers but must cede at least 50 percent of their agriculture cessions to the pool. CARP writes around 50 percent of total agricultural reinsurance premiums and will be the main vehicle for agricultural reinsurance in China. The purposes of CARP are: (1) to ensure that agriculture insurance can be ceded at an appropriate price (responding to experience with international reinsurers which stopped accepting business or raised their rates after major natural disasters in China); and (2) to provide reinsurance support to agricultural policies that are encouraged by the government such as price insurance, special crop insurance and fishing insurance, which international reinsurers do not reinsure.

18. Agriculture insurance in China is developed through a combination of government guidance, market-based operations, independent and voluntary participation, and joint promotion by all stakeholders. The State encourages local people's governments to establish a local treasury-supported mechanism for pooling of catastrophe risks covered by agriculture insurance. There are mainly the following risk pooling approaches: (a) direct insurers are required to set aside catastrophe risk reserves, rolled over on an annual basis, to be used whenever a catastrophe occurs; (b) direct insurers share their risks with reinsurers by purchasing reinsurance; (c) China Agriculture Reinsurance Community (composed of all institutions engaged in agriculture insurance and some insurance institutions that do not engage in agriculture insurance but have sufficient solvency) is set up as a way of pooling the strength of the whole industry to raise domestic risk tolerance and establish a risk pooling mechanism; and (d) some local governments fund a catch-all mechanism for catastrophes.

19. A total of 29 insurers and reinsurers (including Swiss Re, Lloyd's China, SCOR and Hannover Re) participate in the China Nuclear Insurance Pool (CNIP), which was established in 1999. Because the pool lacks the legal capacity to issue its own policies, risks are written by individual pool members, but all premiums are ceded to the pool and retroceded to members according to their underwriting capacity calculated by the CNIP board each year. Additional reinsurance is arranged if necessary. The pool is managed by China Re P&C, which arranges reinsurance for its own account and the other pool members. Pool members' nuclear risk capacity is limited to 5 percent of their total assets. CNIP writes shares of over 300 nuclear plants worldwide and is said to be the third largest nuclear pool in the world in terms of underwriting capacity.

Key Risks and Vulnerabilities

20. **Life insurers are principally exposed to market risk arising from the mismatch between assets and liabilities.** For many companies, the long duration of their traditional business exposes them, in case of falling interest rates, to losses due to the rising cost of liabilities. Asset and liability management (ALM) is hampered by the limited availability of longer maturity investments and hedging instruments, including swaps. High-yielding investments are increasingly attractive in such an environment, as is diversification into foreign investments, but they bring credit and liquidity risks as well as placing demands on fund management expertise. A number of life insurers have been reducing the duration of their liabilities by selling high volumes of short and medium term savings products, sometimes using bancassurance and online channels to sell products that are economically equivalent to bank deposits. This is unlikely to be sustainable, not least because of recent CIRC action to require significantly higher insurance content than the minimal amount that has generally been included in such products.

21. **For the non-life sector, there are risks associated with the growth of new business lines.** As well-established products become less profitable, partly as a result of increased competition following reform of the market, insurers have been launching new product lines, sometimes achieving rapid rates of growth in new business over short periods, for example in credit guarantee insurance. There is a risk that some insurers will not be equipped to manage underwriting risks that differ significantly from their established lines of business (although motor insurance remains the predominant business line). The development of insurance pools, particularly for earthquake risk (see above), will help to mitigate insurers' exposure to loss due to natural catastrophes.

22. **There are risks from growth and rapid change in the insurance sector.** Premium income has been increasing at over 20 percent per year, spurred in part by liberalization of pricing, with many individual, often newer, companies growing at rates far in excess of the average. Agency-based selling is competing with low cost online and other innovative distribution channels and continued growth is accompanied by high levels of interest from potential new entrants. Insurers need to adapt business models and develop their infrastructure rapidly. There is some pressure to meet demanding targets for the increased penetration of insurance set by the government through the planning process and State Council strategic objectives for the sector. Nonetheless, innovation in relation to more complex products has been relatively limited and some higher risk and harder to manage life products which have been introduced, such as variable annuities, have struggled for market share.

23. **There are operational and reputational risks for insurers, as well as direct risks to customers arising from the current limited penetration and lack of understanding of insurance products.** Insurance development has been concentrated over many years in savings products (with guarantees) and compulsory insurance (motor third party liability). There is less

understanding of protection products and of savings products where the investment risk is shared, wholly or in part, with the policyholder (as in investment-linked and participating policies). With commission-based agency distribution models, there are risks of misselling and poor advice, leading to losses for customers and reputational damage and rapid erosion of market share for insurers. The benefits of extensive use of data and the internet, including improved customer screening and better product pricing, are accompanied by risks that private customer information may be compromised as well as vulnerability to cybercrime.

D. Preconditions for Effective Insurance Supervision

Sound and Sustainable Macroeconomic and Financial Sector Policies

24. There is a developed economic policy framework, which is increasingly aimed at reorienting the economy towards consumption-led growth. After decades of growth led by investment and exports, the authorities are targeting a more market-oriented, consumption-based and services-driven economy. The approach has been clearly articulated in the 13th Five Year Plan. Target growth levels have been reduced. A program of supply side reforms is being implemented and the government plans to move to an effectively floating exchange rate regime by around 2018. GDP growth remains high, fiscal policy expansionary (but government debt levels remain relatively low) and inflation is at a low level. China continues to run a large current account surplus.

25. There is a policy-making infrastructure in place for the financial sector. A sector-based regulatory framework has been in place since the late 1990s, comprising the China Banking Regulatory Commission (CBRC), CSRC, and CIRC. The People's Bank of China (PBC) is responsible for financial stability. All these agencies fall under the leadership of the State Council, which also provides the mechanism for developing and publishing broad strategic plans for economic sectors, including financial services. For insurance, the most recent such plan was set out in August 2014 in the publication "Opinions of the State Council on Accelerating the Development of a Modern Insurance Service Industry", which set out an ambitious program for growth and development, including a target for premiums per capita of RMB 3,500 by 2020 (which compares with RMB 1,157 in 2015).

A Well-developed Public Infrastructure

26. There is an established framework of commercial laws and judicial system. The legislative framework includes company, bankruptcy and contract laws as well as laws on the protection of consumer rights and property. The judicial system comprises investigation and prosecution services, a courts and penal system, people's mediation, and lawyer and notary services. China scores relatively highly on the World Bank "Doing Business" assessment of enforceability of contracts and the insolvency process.

27. Accounting and auditing standards are aligned with international standards and practices. The Accounting Law, Law on Certified Public Accountants and Accounting Standards for Business Enterprises (ASBE) include both standards and implementation rules and material on the roles of and responsibilities of Chinese Certified Public Accountant (CPA). Issued originally in 2006, ABSEs are in general based closely on International Financial Reporting Standards (IFRS) and the government is committed to continued alignment. The Accounting Regulatory Department of the Ministry of Finance (MoF) is responsible for issuing ASBEs and auditing standards, which since 2010 have also been based on international standards. The use of IFRS is not permitted for domestic reporting, although companies whose securities trade on the Hong Kong Stock Exchange may and in many cases do choose to use them for reporting to Hong Kong investors.

28. China has a pool of independent and experienced accountants and auditors and a growing population of actuaries, as well as developed professional bodies:

- The Chinese Institute of Certified Public Accountant (CICPA), a member of the International Federation of Accountants (IFAC), is responsible for formulating the codes and rules of practice of certified public accountants and for supervising their implementation. Although a professional body, CICPA operates under the oversight of the MoF and has inspection and disciplinary powers against audit firms and individual auditors.

- The China Association of Actuaries (CAA), founded in 2007, develops the code of ethical practice for actuaries, organizes educational programs and oversees compliance with relevant codes and rules (the one disciplinary case to date resulted in a warning to a member). It has around 900 fully-qualified members (as at late 2016), comprising life and non-life, consulting actuaries and others practicing in auditing firms. The number is growing by around 100 per year, with an increasing proportion obtaining the Chinese qualification, although many existing full members qualified abroad. The CAA is a member of the International Actuarial Association.

29. Audit firms are licensed and oversight of audit work is undertaken by the MoF and the relevant provincial governmental finance departments. Registration requirements for firms include criteria relating to registered capital investment, numbers of CPAs and scope of business operations. Licenses for individual auditors are issued by provincial CPA institutes. The MoF has powers to inspect companies and may require auditors to provide audit documentation of the company under inspection. As mentioned, the CICPA also has powers, providing a second layer of oversight. Firms that undertake audits of listed entities are further required to be licensed by the CSRC, which has powers to inspect companies listed in China. China is not currently a member of the International Forum of Independent Audit Regulators.

30. Statistics required by insurance businesses are available from government agencies and professional bodies. Economic and financial data are published by the National Bureau of Statistics, the MoF and PBC. The requirements of life insurers for mortality data in relation to insured lives is met by the CAA, which collates data from insurers and publishes a mortality table, in conjunction with the CIRC. The table relates to 2000–2003 data. A new table based on 2010–13 data is under development and will soon be issued by the Mortality Investigation Office of the CAA.

Effective Market Discipline in the Financial Sector

31. Corporate disclosures are governed by the accounting standards and requirements in relation to the issuance of publicly-traded securities. Company Law sets out basic requirements on the preparation by companies registered in China of audited annual financial statements, which must be made publicly available. For listed companies, the requirements of the listing authorities include extensive disclosure provisions.

Mechanisms for Consumer Protection

32. There are arrangements for the protection on insurance policyholders, including through a funded insurance guarantee scheme. The China Insurance Security Fund (CISF), established under the Insurance Law and managed by a state-owned company under regulations jointly issued by CIRC, PBC, and MoF, provides for policyholder compensation in well-defined circumstances of financial stress, including bankruptcy (see the assessment of ICP 12 in this report). Insurance companies are required to contribute to the fund. As of the end of November 2016, the CISF has a balance of RMB 94 billion, which compares with some RBM 14 trillion in insurance sector total assets. There are also mechanisms for resolving policyholders' complaints. Policyholders may contact CIRC, which either deals with the complaint itself (if there may be a violation of law or regulations) or refers the compliant to the insurer. There is also access to a complaints mediation function at the Insurance Association of China (IAC) and to the courts.

Financial Markets

33. China has developed, liquid financial markets, although there is limited liquidity in longer term financial assets. China has been developing its stock, currency, bond, futures, foreign exchange and gold markets. Exchange and OTC market trading takes place in various locations, subject to regulation by the CSRC. However, the longest maturity, actively-traded government bond is only around 10 years and there are few corporate bonds in issue at that length of maturity or longer. Insurers are increasingly able, subject to continuing CIRC investment allocation limits and foreign exchange controls, to invest in long term bonds outside Mainland China. There is an interest rate swap market, but liquidity is relatively low.

Table 3. China: Summary of Observance with the ICPs		
Insurance Core Principle	**Level**	**Overall Comments**
ICP 1 - Objectives, Powers and Responsibilities of the Supervisor	PO	Since the FSAP conducted in 2011, CIRC has greatly increased its efforts to ensure a sound regulatory and supervisory environment in China, demonstrating its commitment to turning broad objectives into operational achievements and strengthened supervision. While CIRC focuses in insurance regulation and supervision on the development of safe and healthy insurance markets for the benefit of consumers, the Insurance Law defines two other potentially competing objectives and the detailed mandate and responsibilities of CIRC are defined by the State Council. The priority of policyholder protection in the objectives and mandate of the CIRC needs to be more clearly defined, including in the Insurance Law. Many of the detailed regulatory requirements are either tentative or open to administrative interpretation and take the form of guidance. There is also limited provision for group supervision in primary legislation.
ICP 2 - Supervisor	PO	The CIRC is in practice operationally independent in the day-to-day exercise of its supervisory functions and is not subject to intervention by the State Council in relation to supervisory decisions (although the State Council can hear appeals against supervisory decisions, it has not done so as yet). However, CIRC relies financially on the regular government budget process for funding and central government human resource processes for staffing, as well as government agreement to its internal structure and organization. CIRC is subject to the overall direction of the State Council in relation to its mandate and functions. CIRC's resources are stretched and will be under increasing pressure from the need to analyze and respond to the developments in licensed companies within the framework of an appropriately interventionist but not yet fully risk-based supervisory system.
ICP 3 - Information Exchange and Confidentiality Requirements	O	CIRC has strong and broad based authority to request and exchange information including information on non-regulated related entities and groups. The legislation meets requirements related to dealing with requests quickly, providing information only for a legitimate purpose, ongoing protection of confidentiality, and that information be used only for the purposes specified in the request. CIRC shares information with other authorities as required, under Memorandum of Understanding (MoU) or separate bilateral agreements, where necessary.
ICP 4 - Licensing	LO	The Insurance Law sets out licensing requirements for insurance and for unlicensed operations. The law clearly states the requirements and covers financial as well as nonfinancial aspects to ensure the implementation of safe and sound operations. During the licensing process, CIRC attaches great importance to the views of overseas regulatory authorities. It requires foreign applicants to provide their supervisors' letter of opinion.

ICP 5 - Suitability of Persons	O	CIRC maintains appropriate requirements for the suitability of key personnel. The growth of the insurance market and the demand for highly qualified and experienced management skills should be monitored.
ICP 6 - Changes in Control and Portfolio Transfers	O	The legal framework and CIRC's powers ensure that changes in control, broadly defined, are notified to CIRC and that it can prevent changes that could place policyholders at risk. CIRC is well-equipped to address any increase in merger activity in case of industry consolidation.
ICP 7- Corporate Governance	LO	CIRC's increased focus on corporate governance in recent years has been reflected in the development of its standards, the introduction of a self-assessment and rating system and increased supervision, including targeted inspections. There are requirements applying to groups. The publication of corporate governance ratings is a potentially powerful tool for improving standards. As in other areas, many of the standards take the form of guidance. The approach is still developing in practice and there is scope to develop the framework for groups and to increase the supervisory focus on the effectiveness of governance, especially at board level, including whether Boards of Directors are instilling appropriate corporate culture. The separation of CIRC's processes for governance from those applying to risk management has facilitated the increased focus on governance, but creates a risk that linkages (and shared areas of weakness) are not identified.
ICP 8 - Risk Management and Internal Controls	LO	There is an extensive set of standards, although much of them taking the form of guidance, on. CIRC's approach is being enhanced through the implementation of the Solvency-Aligned Risk Management Requirements and Assessment (SARMRA) framework. Some requirements apply to all, while in other areas CIRC tailors its expectations to the nature, scale and complexity of the insurer. The system is reinforced by the suitability requirements and by reporting to CIRC. There is less coverage of controls or control functions in the group context. There is scope to strengthen requirements on the authority, independence and resourcing of control functions. Standards on outsourcing are limited, reflecting regulatory restrictions, although some outsourcing even of control functions is permitted.
ICP 9 - Supervisory Review and Reporting	LO	The evolution of Chinese insurance regulation is bringing the market closer to international best practice. Although the CIRC has been working to move to fully risk based supervisory approach using supervisory tools such as C-ROSS and SARMRA, it is challenged by limited resources and technical capacity in an environment of fast growth in the insurance sector. Prerequisites for effective risk-based supervision are adequate resources, good insurance knowledge and judgment by staff, and strong requirements concerning institutional governance and internal controls. A risk based approach to supervision requires not only changes to supervisory tools, policies and procedures of the organization, but the change of basic supervisory culture.

ICP 10 - Preventive and Corrective Measures	O	CIRC has the power to take action against unlicensed activity and the ability to escalate corrective action where a breach has occurred and in the case of solvency breaches can require a plan of corrective action. It can also communicate directly with the board and senior management. It does not have many tools to take preventative action before an administrative breach has occurred, other than through discussion and agreement to inspection/examination findings.
ICP 11- Enforcement	LO	The administrative penalty powers include both preventive actions and escalatory actions. Actions may be taken against individuals (e.g., suspension of officers and directors) as well as corporate entities and extend from penalties and suspensions to exercising conservatorship over the insurer in the case of failure to meet solvency requirements. The upcoming major revision of the Insurance Law (started drafting in 2015) will revise and upgrade the relevant provisions, i.e., both the lower and the upper limit of penalties will be upgraded, which has been included in the draft submitted to the State Council.
ICP 12 - Winding-up and Exit from the Market	LO	The legislative framework provides for a set of circumstances under which CIRC may decide that insurance companies may no longer continue in business as well as legal mechanisms for orderly exit that are likely to deliver a high degree of protection to policyholders. The framework includes a wide range of triggers, including but not limited to inadequate solvency, for CIRC to remove a company's license and criteria for initiating liquidation, although there is no clear point in the framework at which it is no longer permissible for an insurer to continue its business. Policyholders rank high in the order of preference and are eligible, in the case of domestic policyholders, for compensation for losses from the CISF. There is flexibility in practice for CIRC to manage failures, including (with State Council agreement) intervention to recapitalize an insurer using CISF resources, as has occurred in two cases since 2008. The framework has not otherwise been tested in the nearly 20 years of CIRC's existence. Establishing a clear point at which it is no longer permissible for an insurer to continue its business would help to ensure that CIRC is ready (and is seen to be ready) to trigger resolution of a failing insurer without resort to CISF recapitalization, where necessary.
ICP 13 - Reinsurance and Other Forms of Risk Transfer	O	CIRC has comprehensive requirements on the reinsurance arrangements of primary insurers, focusing on non-life reinsurance, although the general requirements apply also to life reinsurance. The regulatory approach now relies on risk management requirements, reporting and oversight by CIRC rather than prior approval of individual reinsurance contracts. It is supported by the recently-introduced solvency and related risk management standards (C-ROSS). The introduction of a register system for reinsurers based on credit standing as well as incentives to manage reinsurance credit risk in the solvency framework should ensure that insurers deal only with high quality reinsurers, including foreign companies. CIRC needs to keep its approach and supervisory resources

		under review as the number of reinsurance companies based in China continues to increase, as CIRC expects.
ICP 14 - Valuation	LO	There are comprehensive requirements on valuation for solvency purposes which combine the benefits of alignment to accounting standards with requirements to address the specific needs of insurance business. The framework is supported by governance requirements, including required actuarial opinions, risk management requirements and supervisory oversight and enforcement of reserving adequacy. There are also measures, in life insurance, to cap valuation rates. The valuation basis for life insurance is broadly economic, although not fully market consistent. CIRC's objective has been to increase market consistency while avoiding excessive volatility in the valuation and more generally to reflect market conditions and risk management standards in what is not a fully developed financial system. Differences in valuation bases for assets and liabilities, and in particular the treatment of Hold to Maturity investments, mean that the requirements, while comprehensive, are not fully consistent. Simplifications, while appropriate for smaller companies, may lead to inappropriate valuations, including of time value of embedded options and guarantees (TVOG).
ICP 15 - Investment	LO	CIRC has been significantly liberalizing the requirements on investment of insurance funds and insurers are responding by diversifying from bank deposits and bonds into property, alternative and overseas investments. Across the sector, potentially higher risk investments remain low, although some individual insurers have more aggressive investment strategies and they have been attracting increased CIRC supervisory focus. CIRC has recently moved to tighten investment restrictions in relation to stock market activity by some insurers that has included building controlling interests. CIRC is seeking to balance the benefits of diversification of insurance funds with the need for continuing restrictions, of which there remain many, while expertise in fund management and risk assessment is developing. It is working with insurers and the trade associations in this regard, while also developing the expertise of its own Investment Department. Given the rapid growth of the market, and pressure to accommodate increased use of insurance funds in activities that will support economic growth objectives, CIRC needs to remain vigilant.
ICP 16 - Enterprise Risk Management for Solvency Purposes	PO	CIRC has introduced, through the SARMRA framework, an extensive set of risk management requirements, which have already had a significant positive impact on insurer practices. Its integration into the supervisory process and its direct link to overall solvency requirements makes SARMRA likely to become an effective framework for delivering strong Enterprise-Wide Risk Management. The framework is still new and not fully implemented at CIRC or in the processes of insurers. In relation to the ICP expectations, it lacks a full ORSA requirement (under which insurers would be required to develop their own view, in an integrated manner, of both risk and solvency requirements, which the supervisor can

		use as an input into its solvency adequacy assessment), even if many of the elements of ORSA are present in the SARMRA framework. While it may be too early for CIRC to require ORSAs at present given the state of development of insurance sector risk management, experience in other countries suggests that an ORSA process can be useful in requiring companies to look at risk and solvency together. Furthermore, by not including explicit requirements on group risk, the SARMRA does not cover all the risks within the scope of the ICP.
ICP 17 - Capital Adequacy	LO	The new C-ROSS solvency framework is a major step towards a risk-based approach. The combination of Pillar 1 with a Pillar 2 qualitative and quantitative framework, including additional solvency requirements for individual insurers under the SARMRA process, goes beyond the approach of many other countries in linking solvency requirements to the overall supervisory approach. It is likely to incentivize sound risk and capital management. While it excludes an internal model approach, the framework relies on extensive CIRC interventions and is resource-intensive for it to manage. There is also a risk at this early stage that elements of the approach are not embedded by insurers or understood by those using the output. The IRR ratings in particular may be hard to evaluate. The framework is not comprehensive: operational risks are excluded from Pillar 1 requirements, even where quantifiable, although there are data constraints in China. The relatively high requirements on credit risk for offshore reinsurers (where not collateralized), regardless of credit rating, raise concerns that aspects of the framework may not be fully risk-based. The requirements for equity risk appear low. While CIRC policy and practice is clearly to enforce the requirements fully, it will be helpful to clarify its approach to solvency control levels and to ensure the insurance sector is aware of its approach.
ICP 18 - Intermediaries	LO	Against the background of an increasingly competitive market, with rebating and inducements for policyholders, the incidence of insurance misrepresentation is increasing. The abolition of statutory qualification requirements for insurance agents with effect from 2015 has led to an explosion in the number of people engaged in the business, particularly in life agency. Insurance distribution is not simply about pushing product to achieve a specific growth rate. Policyholders' needs have to be understood and assessed, options identified and appropriate advice given on which insurance companies and products to select. For insurance companies, it is in distribution that relationships and trust are built with agents, brokers, and customers, opportunities identified and created, and products and services sold. Although CIRC has a database, there is a room for improvement to have a more efficient computer system, for example with automated computer runs to check on compliance with each of main requirements (the list of non-compliant firms could not be produced upon request).

ICP 19 - Conduct of Business	LO	CIRC is continuously regulating the distribution network to encourage innovation, motivate lower premiums, better service and more responsive insurance products while restructuring/redesigning the new solvency regime. These two tasks require a well-planned/designed road map, highly technical staff and adequate resources. The insurance dispute settlement mechanism has played an important role in timely resolving of conflicts and disputes. CIRC has introduced good rules about problems such as exaggerating the insurance coverage or the returns from insurance products, guaranteeing returns on insurance products with volatile performance and important insurance clauses such as fees and charges in universal insurance or investment-linked insurance. While there are many good requirements in the law, additional provisions are necessary to ensure products sold to purchasers are appropriate to their needs, that any potential conflict of interest are disclosed, and that public information is available to support consumer decisions and the fair treatment of consumers.
ICP 20 - Public Disclosure	LO	CIRC sets out detailed disclosure requirements of its own, rather than relying on the publication of audited financial statements, although in practice the information to be disclosed is closely aligned and many disclosures are driven by accounting standards. There is not complete coverage of the ICP requirements as disclosures at the insurance group level (and for reinsurers) are limited. Some disclosure requirements, such as technical provisions, claims, corporate governance and Enterprise Risk Management (ERM) are relatively limited. The implementation of C-ROSS is greatly improving the disclosure of information on solvency. The full impact and effectiveness of these disclosures is yet to be felt and there may be challenges in understanding the basis of the IRR and SARMRA ratings in the early days. However, initial indications are that disclosures are being closely watched, including by brokers and agents.
ICP 21 - Countering Fraud in Insurance	O	CIRC focuses on three dimensions of fraud: false insurance companies, false policies specifically in life insurance and false claims. In 2015 and 2016, CIRC has dedicated resources in the inspection department and in the regional insurance bureau available to support efforts against insurance fraud.
ICP 22 - Anti-Money Laundering and Combating the Financing of Terrorism	O	Since the 2010 FSAP, CIRC has conducted effective work, including cooperating with PBC in Anti-Money Laundering (AML), promulgating new AML rules and making AML a part of the risk indicator assessment system of C-ROSS. CIRC enforces regulation and classification-based supervision according to industry characteristics, leverages its understanding about insurance operations and focuses on the research and practice of AML standards in the context of industry characteristics, complementing the role of PBC. CIRC has allocated regulatory resources in a reasonable manner, focusing on the regulation of systemically important companies, companies with high money laundering (ML) risks

		and high-risk products and regions.
ICP 23 - Group-wide Supervision	O	CIRC has established a framework of measures and guidelines that establish comprehensive groupwide supervision of insurance groups. The framework is being applied in practice to all groups and has enabled CIRC to apply a wide range of regulatory standards, including on solvency and capital management, governance, risk management, intra-group transactions (IGT) and disclosure, to insurance groups as well as to carry out oversight of groupwide risks.
ICP 24 - Macroprudential Surveillance and Insurance Supervision	LO	CIRC uses the extensive data reported by insurers as well as other information and targeted stress tests to monitor the insurance market for significant trends. It draws on macroeconomic data and analysis to identify risks to the sector. The focus is mainly domestic, reflecting the limited international dimension to the insurance sector. CIRC also monitors for systemic risk in insurance products, taking into account the predominance of traditional, and otherwise standard, products in the market and the influence of distribution channels such as bancassurance. While CIRC is already applying enhanced supervision of the G-SII, the framework for macroprudential regulation will be much strengthened next year with the planned introduction of requirements for D-SIIs.
ICP 25 - Supervisory Cooperation and Coordination	PO	CIRC has been increasing cooperation with other regulators, through the new Joint Ministerial Conference (JMC) arrangements and mainly bilateral arrangements with foreign regulators. Its approach reflects the limited internationalization in practice of the Chinese market to date. There is scope for closer cooperation with the CSRC, to reflect the CIRC's responsibilities for asset management and the importance of insurers as investors in capital markets. In relation to international cooperation, there is scope to update and extend the scope of bilateral supervisory cooperation arrangements and to incorporate supervisory recognition of foreign regulatory regimes, taking into account the recent significant development of the Chinese regime, in areas such as C-ROSS.
ICP 26 - Cross-border Cooperation and Coordination on Crisis Management	LO	CIRC has powers and processes for addressing an insurance company crisis, including recovery and resolution plans (RRPs) for the one G-SII for which it has groupwide responsibility. Crisis preparedness has been tested, but only by experience of a domestic company in stress. Crisis management planning has not been a focus of cross-border supervisory work, reflecting the limited internationalization of the market, although CIRC has the ability to share relevant information with foreign supervisors. Most focus on crisis management preparedness has been on the G-SII group, which is also the most significant cross-sectoral group. There is a need to ensure that other insurers, some of which may have more significant cross-border operations than the G-SII, are subject to appropriate crisis management preparedness requirements, and that processes are available to manage a cross-border crisis in practice.

E. Recommendations and Authorities' Response

Table 4. China: Summary of Observance Level

Observed (O):	8
Largely observed (LO):	14
Partly observed (PO):	4
Not observed (NO):	0
Total:	26

Table 5. China: Recommendations to Improve Observance of the ICPs

Insurance Core Principle	Recommendations
ICP 1 - Objectives, Powers and Responsibilities of the Supervisor	• In the context of the next regular review of the Insurance Law, the authorities review the objectives of the law, with a view to giving CIRC an express mandate to promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders (or similar language) to the exclusion of other objectives, functions and responsibilities except to the extent that they are consistent with this primary objective.
ICP 2 - Supervisor	• The authorities, in the context of the next review of the Insurance Law, make changes to the law to equip CIRC with the formal and financial independence it will need effectively to administer an increasingly complex regulatory framework, including scope to set its own budget and recruit staff, subject to appropriate accountability.
ICP 3 - Information Exchange and Confidentiality Requirements	• CIRC should complete its network of MoUs with key regulators including relevant US states directly, where necessary. • CIRC should publish its MoUs, where agreed, and accelerate the process to join the IAIS MMoU.
ICP 4 - Licensing	• CIRC should consider making increased use of inputs from foreign supervisors as an alternative proof of compliance on some key licensing criteria.
ICP 5 - Suitability of Persons	• CIRC should increase its emphasis over time on competence assessment, in relation to the role of the individual, taking account of the scale and nature of the company's business.
ICP 6 - Changes in Control and Portfolio Transfers	

ICP 7 - Corporate Governance	• CIRC should develop further its expectations on corporate governance of groups, recognizing the existing significance and likely increasing importance of groups, including financial conglomerates, and drawing on recent IAIS work in this area, as applicable. • CIRC should develop a set of binding requirements in due course to strengthen existing mainly guidance-based material. • CIRC should develop its supervisory approach over time (recognizing the priority of embedding C-ROSS/SARMRA) to equip supervisors to assess the effectiveness of governance more fully, and to integrate the assessment of corporate governance within the C-ROSS process more completely.
ICP 8 - Risk Management and Internal Controls	• CIRC should continue to strengthen its expectations of control functions (other than internal audit) in relation to independence and resourcing and the scope of their responsibilities. • CIRC should review the need for more guidance or other material on group level risk management and develop standards on outsourcing that would apply to any outsourced activities. • CIRC should develop a set of binding requirements in due course to strengthen existing mainly guidance-based material on risk management, etc.
ICP 9 - Supervisory Review and Reporting	• CIRC should develop stronger centralized oversight of the supervision of groups, by a system of lead supervision with adequate staffing to ensure close and continuous oversight of significant groups and able to see the group wide risks and respond accordingly. • CIRC to develop its supervisory framework to include more emphasis on a risk-based supervisory plan to bring together all the issues and actions on an insurer, including market conduct. This is particularly important in an increasingly competitive market with an expanding number of companies.
ICP 10 - Preventive and Corrective Measures	
ICP 11- Enforcement	• CIRC should review the general level of penalties to ensure that they are an effective deterrent.
ICP 12 - Winding-up and Exit from the Market	• CIRC should ensure that the regulatory framework specifies a clear point at which it is no longer permissible for an insurer to continue its business, for example where the insurer falls below it minimum capital requirement. • CIRC should whether, given policyholder compensation is available via the mechanism of CISF (although it is not an ICP requirement), the level of protection should be increased to 100 percent in case of compulsory lines

	of insurance (motor third party liability).
ICP 13 - Reinsurance and Other Forms of Risk Transfer	• Although facultative reinsurance contracts have to be signed before they become effective, CIRC should strengthen requirements on the documentation of reinsurance arrangements to ensure that documentation is signed promptly as far as possible. • CIRC reviews its approach to life reinsurance, recognizing the significant recent growth in use of reinsurance by primary insurers, partly in response to the introduction of the new solvency requirements (C-ROSS).
ICP 14 - Valuation	• CIRC should establish an objective and a plan for improving the consistency of valuation requirements across assets and liabilities and longer term, for moving valuation to a more market consistent basis, while continuing to take into account the characteristics of Chinese markets. • CIRC should develop, maybe as part of the plan, elements of the framework where large insurers (for example, Class I under C-ROSS) or those with proven financial controls, to use more sophisticated techniques, such as stochastic valuation of TVOG. • CIRC, in cooperation with other authorities, should complete the implementation of an approach to reserving for catastrophe risk.
ICP 15 - Investment	• CIRC should review its approach, including the balance between regulatory limits and supervisory activity, to higher risk investments including equities, taking account of the 30 percent limit on equity investments that is high for many forms of insurance business and the recent experience with stock market activity of some insurers.
ICP 16 - Enterprise Risk Management for Solvency Purposes	• CIRC should develop an approach to the inclusion of group risks explicitly in the SARMRA framework. • CIRC should extend the SARMRA framework in due course to require insurers to develop ORSAs: these would ideally be prepared as integrated documents setting out the insurer's own view of risk and the related solvency needs; they should be agreed by the Board and submitted to CIRC as required as an input into the SAMRA assessment. • CIRC should consider, after the completion of the first year of SARMRA assessments, how to make the process more risk-based, for example moving to regularly more frequent assessments of Class I or larger insurers and less frequent reviews of smaller companies, at least those with strong SARMRA performance.
ICP 17 - Capital Adequacy	• CIRC should review its approach to intervention in terms of the ICP framework providing for two solvency control levels prescribed capital requirement (PCR) and minimum capital requirement (MCR), establish

	levels for intervention and publish its approach. • CIRC should review the treatment in the solvency requirements of credit risk on offshore reinsurers and equity risk (in the light if market volatility in recent years).
ICP 18 - Intermediaries	• CIRC should review the level of resources that it currently applies to market conduct and intermediaries in the light of the increasingly competitive market. • CIRC should consider establishing stronger requirements on agents to disclose commissions and potential conflicts of interest.
ICP 19 - Conduct of Business	• CIRC should consider developing a five year road map for the distribution network and market conduct focusing on: (a) clear and simple guidance on the needs of the policyholder and advice during selling life and non-life products which takes into account the interests of the policyholders; (b) Clear information at the first business contact; the agency and/or broker should have to inform the customer about their status (e.g., broker or tied agent), so that the customer is aware of a potential conflict of interests; (c) Informing policyholders about the costs of concluding life and health insurance products; (d) a standard claims management system to be able to handle claims in a timely and fair manner; and (e) on-going advice to the policyholders.
ICP 20 - Public Disclosure	• CIRC should review and update the core requirements on disclosure to reflect the full range of ICP requirements, as appropriate in the context of the Chinese insurance market, including in relation to technical provisions and claims, and complete their planned work to align them with C-ROSS required disclosures. • CIRC should extend the disclosure requirements applying to reinsurers and insurance groups. • CIRC should continue to give guidance (and require insurers to do so) on the interpretation of the new disclosures under Pillar 3 of the C-ROSS framework to maximize their usefulness to stakeholders.
ICP 21 – Countering Fraud in Insurance	
ICP 22 - Anti-Money Laundering and Combating the Financing of Terrorism	
ICP 23 - Group-wide Supervision	• The revised insurance legislation being developed by CIRC for submission to the State Council and People's Congress should include more explicit

	powers in relation to groupwide supervision so as to ensure that CIRC can continue to exercise effective groupwide oversight.
ICP 24 - Macroprudential Surveillance and Insurance Supervision	• CIRC should finalize, as planned, the regime for D-SIIs.
ICP 25 - Supervisory Cooperation and Coordination	• CIRC should continue to deepen supervisory cooperation within the JMC framework and bilaterally, including with the CSRC in relation to areas of shared interest. • CIRC should establish a framework for assessing the equivalence of foreign regulators (particularly in relation to their consolidated supervision), where significant in relation to foreign-funded insurers, and in case of future expansion of domestic insurers outside China. • CIRC should review, update and extend its network of MoUs with foreign regulators to incorporate provisions on supervisory cooperation to supplement provisions on exchange of information (see also ICP3).
ICP 26 - Cross-border Cooperation and Coordination on Crisis Management	• In addition to completing its planned development of its D-SII framework, which captures cross-border business, CIRC should review the scope of its crisis management planning for all insurers with foreign operations to ensure that there is adequate focus on crisis preparedness in supervisory work. • CIRC should develop a framework for crisis simulation involving an insurance group, to test how it would react in case of a crisis. While more useful for a banking crisis, an exercise simulating how CIRC, CISF, etc. would deal with a crisis at a major insurance group would be useful in testing how communications would work, whether adequate information was available, and whether the authorities had the right tools to deal with the crisis.

F. Authorities' Responses to the Assessment

41. China Insurance Regulatory Commission (CIRC) welcomes the opportunity to take part in the second China FSAP and have a full assessment of ICP observance. We appreciate the fruitful work of the assessment that would have been impossible without the hard work of the assessors and the good communication and cooperation between the assessment team and CIRC.

42. After first China FSAP, much progress has been made to modernize and strengthen insurance regulation and supervision in China. Since then, Insurance Core Principles (ICPs) have also gone through amendments and the current version, as amended by the IAIS in 2015, is much more rigorous and comprehensive than the one used for the first China FSAP in 2011. CIRC is pleased with the general findings of the assessment indicating that China has been undertaking far-reaching reforms and modernization since the 2011 FSAP; and that the Chinese regulatory system has a good level of compliance with the Insurance Core Principles.

43. The report recognizes that CIRC has focused its work on improving corporate governance, enforcing sound market conduct and reshaping the solvency standards into a modern, risk-based approach; that CIRC's regulatory framework includes extensive requirements on these three pillars of regulation; and that all these requirements are applied appropriately.

44. The report identifies areas for development and gives many constructive recommendations as to how CIRC can further improve its regulatory system such as through a stronger system of lead supervision, enhanced collaboration with other supervisors and recognition of foreign supervisors, further development of crisis preparedness and market conduct work, planning for the next stage of China Risk Oriented Solvency System(C-ROSS), as well as making changes of legislative framework.

45. Many of the proposed changes are already in progress. The regulatory framework for Domestic Systemically Important Insurers was under steady construction when the on-site mission took place and the solvency regulation recognition work with EU and Hong Kong is in process. As for C-ROSS, a task force has been established to discuss the next step.

46. It is important to note that the Chinese insurance industry has a relatively short history. At the time of the assessment, China is an emerging insurance market with insurance penetration and density both below world average despite its size and fast growth in recent years. CIRC's regulation system is designed based on this fact. Therefore, some areas that seem partially compliant with ICP such as enterprise risk management are specially designed to reflect the current risk management level of the insurance industry. This approach to reflect Chinese characteristics has been proved to be useful and successful in practice.

47. We appreciate the recommendations of the assessors, which will have increasing value as the Chinese insurance industry continues to grow and to mature. CIRC looks forward to continuing dialogue with the IMF and World Bank as it considers the recommendations.

DETAILED ASSESSMENT

Table 6. China: Detailed Assessment of Observance of the ICPs	
ICP 1	**Objectives, Powers and Responsibilities of the Supervisor** The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
Description	China's insurance legal framework is composed of texts of varying legal force: the Insurance Law is the core of this framework; the insurance administrative regulations are formulated by the State Council; the insurance regulatory rules and normative documents are formulated by CIRC within the scope of its powers granted by the Insurance Law. Under this framework, the Standing Committee of the National People's Congress has the power to amend the Insurance Law; the State Council can revise administrative regulations (there are three: the Regulations on the Administration of Foreign-Funded Insurance Companies, the Regulation on Agriculture Insurance, and the Regulation on Compulsory Auto Liability Insurance); the insurance supervisor may revise the rules and normative documents it has developed. Laws and administrative regulations confer on CIRC the corresponding powers to undertake licensing and supervision, including supervisory powers. In addition, the rules also empower the supervisor to impose administrative sanctions in the form of warnings and fines up to a certain limit. CIRC, under the Insurance Law, is clearly identified as responsible for insurance regulation and supervision, including licensing and supervision of insurance intermediaries. Its administrative regulations and guidelines are issued under the authority of the CIRC chairman or relevant CIRC departments. Because China's insurance industry is developing rapidly and regulation is encountering many new issues, CIRC's practice is to develop interim provisions to test the effectiveness of its approach. It then modifies the interim provisions in the light of experience and finally develops a formal rule. More importantly, these interim rules and normative documents are regarded as just as effective as formal rules. However, a result is that at any time some significant regulatory material applicable to insurance companies is in the form of interim provisions. In many other cases, including the solvency standards, it takes the form of guidance, which is not directly enforceable. The main functions of the CIRC (set out in Article 133) of the Insurance Law, which also contains provisions on insurance contracts, are: • the regulation of insurance activities; • strengthening insurance supervision and administration; • promoting the healthy development of insurance markets; and • maintaining the social and economic order and public interest.

	In addition, under Article 133, CIRC is responsible for protection of the rights and interests of parties of insurance activities. To achieve this objective, in 2011 CIRC established its Consumer Protection Bureau, which is responsible for developing regulations and policies designed to protect insurance consumers and carrying out work on consumer protection. The functions of CIRC, which are set by the State Council separately from the Insurance Law provisions, include the following: supervising insurance, reinsurance companies, insurance intermediary markets and insurance assets management; formulating the development strategy, business planning and policies for the insurance sector; developing relevant insurance supervisory regulations; drafting relevant laws and administrative regulations and "taking on other duties commissioned by the State Council." In addition, as a nationwide self-regulatory organization, the IAC also formulates sector standards and guidelines under the guidance of CIRC. The decentralized approach to administration in China also gives provincial authorities a role in insurance legislation, particularly in the introduction of new compulsory classes of insurance. Classes such as medical malpractice or liability for the spread of fire can therefore be made compulsory in individual cities or provinces in advance of national legislation. However, provincial governments have no role in insurance regulation or supervision. CIRC's 36 insurance bureaus have eight main objectives, of which the development of the provincial markets ranks highly. The key objectives include: (1) developing the regional insurance market, (2) Implementing regulation and enforcing its application, (3) monitoring and analysing the insurance market and preventing failures, and (4) conducting local supervision and imposing sanctions where necessary. In addition, in the State Council document "Opinions on Accelerating the Development of a Modern Insurance Industry", issued in 2014, the CIRC has been charged with an ambitious strategy for growth of the insurance sector. The CIRC has therefore been given the role not only of regulation and supervision of the insurance industry under the Insurance Law, but also a responsibility for developing the insurance industry in line with State Council ambitions.
Assessment	Partly Observed
Comments	Since the FSAP conducted in 2011, CIRC has greatly increased its efforts to ensure a sound regulatory and supervisory environment in China, for example with the new solvency framework (C-ROSS—see ICP 17), demonstrating its commitment to turning broad objectives into operational achievements and strengthened supervision. While CIRC focuses in insurance regulation and supervision on the development of safe and healthy insurance markets for the benefit of consumers, the Insurance Law defines two other potentially competing objectives and the detailed mandate and responsibilities of CIRC are defined by the State Council. The

	priority of policyholder protection in the objectives and mandate of the CIRC needs to be more clearly defined, including in the Insurance Law or other primary legislation, relative to these other priorities so as to avoid conflicts in the exercise of supervisory authority and to ensure that the protection of policyholders is the primary objective of insurance supervision. Many of the detailed regulatory requirements are either tentative or open to administrative interpretation and take the form of guidance. For example, while a regulation lists a number of specific conditions with which insurers must comply, there may be "any other conditions which may be required by CIRC." There is also limited provision for group supervision in primary legislation. The law should also more clearly define the supervisory authority's role and powers with respect to group supervision (see ICP 23). It is recommended that in the context of the next regular review of the Insurance Law, the authorities review the objectives of the law, with a view to giving CIRC an express mandate to promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders (or similar language) to the exclusion of other objectives, functions and responsibilities except to the extent that they are consistent with this primary objective.
ICP 2	**Supervisor** The supervisor, in the exercise of its functions and powers: • is operationally independent, accountable and transparent; • protects confidential information; • has appropriate legal protection; • has adequate resources; and • meets high professional standards.
Description	CIRC is a ministerial public service department, which gives it the same status as China's other financial market regulators, the CSRC and the CBRC. CIRC reports to, and carries out administrative functions delegated by, the State Council. The authority, functions and internal organizational structure of CIRC are stipulated by the State Council. The budget and staffing of CIRC is arranged by the State Council. These are determined by the overall policy of the State Council. PBC, CBRC, CSRC, and CIRC share these features. *Governance of CIRC* CIRC's governance and internal organization are defined in the Insurance Law and it is governed by the chairman and four vice-chairmen. The appointment and dismissal of the head of CIRC (including the Chairman, Vice Chairmen, and Assistant Chairmen) are carried out in accordance with the procedures established by the State. All appointments and dismissals are formalized by a corresponding letter issued by the State Council and are publicly disclosed. Under the Law on Civil Servants, Article 9, civil servants enjoy rights, including the right not to be removed from office, demoted, dismissed or disposed of without due cause of law and without going through legal procedures. All the staff of CIRC, including the board,

	perform their duties as civil servants. However, there is no explicit requirement for the reasons for dismissal of a board member to be published. *Institutional relationships* The relationship between the Chairman, other parts of government and the judiciary is clearly-defined in the Insurance Law and Law on Civil Servants. There is a direct reporting relationship between the State Council and the Chairman. The Chairman is ultimately accountable for all supervisory decisions, though a number of decisions are delegated to CIRC's staff on a day-to-day basis. *Resources* In the budget system of CIRC, income is separately managed from its expenditure. On the income side, insurance companies are required to pay the insurance supervision fee to the MoF according to the fee schedule established by the MoF and the National Development and Reform Commission (NDRC); on the expenditure side, CIRC will apply to the MoF for a budget that is prepared based on its supervisory needs and the State's rules on budget management. The budget, which can and does differ in value from the amounts of fee income, will be allocated and paid to CIRC after it is approved by the MoF. CIRC has 15 internal departments at its headquarters and has established regional Insurance Bureaus in 31 provinces, autonomous regions, and direct-controlled municipalities and in 5 Cities under Separate Planning, as well as Insurance Sub-Bureaus in 13 prefecture-level cities including Suzhou, Jiangsu Province. The heads of the above-mentioned regulatory agencies independently carry out their responsibilities within their scope of authority. CIRC has 3,147 staff members and 92.3 percent have more than five years of work experience. CIRC believes that it can attract sufficient talent to fill vacancies and to increase its capabilities. *Transparency of requirements and procedures* Most of the supervisory requirements and processes are established in laws, regulations and circulars which are publicly available. The CIRC has formal policies and procedures to guide supervisory work and assist in ensuring that it is conducted in a consistent manner across all institutions. *Review of requirements and procedures* Over the last five years the CIRC has taken significant steps to review and improve requirements in areas such as risk-based solvency requirements, reserving practices, group supervision, regulation of intermediaries and reinsurance. *Information on the insurance sector and the supervisor* The CIRC publishes a report annually on the insurance market. The report provides information on industry participants, markets and some industry financial

	information while giving little information on profitability, governance or risk. It does not publish an annual report detailing CIRC's activities and own financials. The CIRC does issue special reports and publishes information on enforcement decisions. CIRC holds regular industry briefings and news conferences, informing the public of its policy goals, regulatory activities and market developments. Furthermore, CIRC has also been organizing online interviews, issuing press releases, and publishing articles under the names of its leaders in major news media to explain regulatory policies and directions. CIRC publishes an annual report in Chinese and English on its website, although the English section is limited. However, the annual report does not include details of CIRC's own financial position. A comprehensive annual statistical compendium based on Chinese Generally Accepted Accounting Principles (GAAP) data is published in Chinese. *Appeal against supervisory decisions* The Administrative Reconsideration Law and the Regulations on the Implementation of Administrative Reconsideration Law provide that any specific administrative action taken by CIRC can be subject to administrative reconsideration in accordance with the law. Under the Administrative Reconsideration Law, appeals may be taken to the Court or to the State Council if the appellant is not satisfied with CIRC's decision. CIRC, for its part, has issued the Measures of CIRC for Administrative Reconsideration, which has specified the scope, application, application acceptance, decision, legal liabilities and procedures of administrative reconsiderations. The purpose of the Measures is to regulate the administrative reconsideration process; prevent and rectify any illegal or inappropriate specific administrative actions; effectively protect the lawful rights and interests of citizens, legal persons and other organizations; and ensure and supervise that CIRC performs its mandate in accordance with the law. *Confidentiality* CIRCs staff must not pass on confidential information which they receive in the course of their work and where it is possible to identify the individual insurer. Confidential information comprises business secrets of insurers as well as of the insured and any information that has been provided to CIRC on condition that it is kept confidential. Under Article 156 of the Insurance Law, the staff of CIRC shall not divulge relevant entities' and individuals' trade secrets that have come to their knowledge. Article 12 of the Civil Servant Law also provides that civil servants have the obligation to keep the secrets of the State and of their work confidential. In practice, CIRC officials indicate that confidential information is identified and safely stored and only utilized for appropriate supervisory purposes by the CIRC or related state agencies in the exercise of their authority. *Legal protection*

	CIRC's staff are adequately protected from any incrimination when discharging their duties. The Law on Civil servants establishes a right for all civil servants to be protected by law when performing public duties. The purpose of this law is to assure public duty performance and it has general applicability, including to CIRC. CIRC adheres to the standards of conduct that apply to all civil servants. It does not have its own Code of conduct nor does it have a formal conflict of interest policy for staff.
Assessment	Partly Observed
Comments	The CIRC is in practice operationally independent in the day-to-day exercise of its supervisory functions and is not subject to intervention by the State Council in relation to supervisory decisions (although the State Council can hear appeals against supervisory decisions, it has not done so as yet). However, CIRC relies financially on the regular government budget process for funding and central government human resource processes for staffing, as well as government agreement to its internal structure and organization. As mentioned under ICP1, CIRC is subject to the overall direction of the State Council in relation to its mandate and functions. The evolution of Chinese insurance regulation is bringing China closer to international best practices, but currently CIRC's regulatory and supervisory processes are resource-intensive, especially in a time of market and regulatory change (see ICP 9). CIRC's own resources are stretched and will be under increasing pressure from the need to analyze and respond to the developments in licensed companies within the framework of an appropriately interventionist but not yet fully risk-based supervisory system. It is recommended that the authorities, in the context of the next review of the Insurance Law, make changes to the law to equip CIRC with the formal and financial independence it will need effectively to administer an increasingly complex regulatory framework, including scope to set its own budget and recruit staff, subject to appropriate accountability.
ICP 3	**Information Exchange and Confidentiality Requirements** The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.
Description	Under Article 86 of the Insurance Law, CIRC can require insurers to submit reports, statements, documents and materials in accordance with the rules of CIRC. Article 157 of the *Insurance Law* provides that CIRC is to establish a regulatory information sharing mechanism with the PBC and the other financial regulators under the State Council. Articles 40 and 41 of the *Interim Measures for the Administration of the Non-Insurance Subsidiaries of Insurance Companies*, CIRC has the authority to obtain and exchange the regulatory information with other supervisors on insurance legal

	entities and groups (including the non-regulated entities of the group). So CIRC also has powers in the Insurance Law to share information with other authorities. There are various arrangements for sharing of information with domestic regulators. • The creation of a Financial Regulatory Coordination JMC has enhanced CIRC's capacity to exchange and share information with PBC, CBRC, CSRC, and the State Administration of Foreign Exchange (SAFE) for the purposes of regulatory coordination and prevention of financial risks. • Under the MoU between CBRC and CIRC on Strengthening In-Depth Cooperation and Cross-Sectoral Supervisory Cooperation, CIRC and CBRC have established a mechanism for the periodic exchange of regulatory information, which allows both supervisors to exchange information on the risks of commercial banks and insurance companies. • In accordance with the Guidelines for the Consolidated Supervision of Insurance Groups, in June 2004, CBRC, CSRC, and CIRC signed a MoU on the Division of Responsibilities and Cooperation in Financial Supervision and Regulation), under which duties were clarified and a periodical information and communication system established. A working party of the heads of the three regulatory bodies meets on a quarterly basis to discuss relevant issues and ensures appropriate level of information about the respective sector. In accordance with the Guidelines for the Consolidated Supervision of Insurance Groups, CIRC has entered into bilateral MOUs and other arrangements with overseas supervisors on regulatory cooperation, with a view to strengthening cross-border regulatory coordination and information sharing with respect to insurance groups, by such means as exchanging regulatory opinions, updating other parties on major changes to regulatory measures, and circulating risk assessment results. CIRC has engaged in various agreements under which it can share information with other regulatory bodies—with BaFiN in Germany, the Hong Kong authorities and Macao—and internationally with national supervisors such as the US National Association of Insurance Commissioners (NAIC), the European Insurance and Occupational Pensions Authority (EIOPA) and the IAIS. Confidentiality aspects are considered and provisions made on protection of confidential information within the signed agreements. China is not currently a signatory of the IAIS MMoU, although it is considering the issues and implications of applying for membership.
Assessment	Observed
Comments	The legislation meets the standards of the ICP. CIRC has strong and broad based authority to request and exchange information including information on non-

	regulated related entities and groups. The legislation meets requirements related to dealing with requests quickly, providing information only for a legitimate purpose, ongoing protection of confidentiality, and that information be used only for the purposes specified in the request. CIRC shares information with other authorities as required, under MoUs or separate bilateral agreements, where necessary. It is recommended that CIRC: • complete its network of MoUs with key regulators including relevant US states directly, where necessary; and • publish its MoUs, where agreed, and accelerate the process to join the IAIS MMoU.
ICP 4	**Licensing** A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.
Description	The Insurance Law provides a definition of insurance business and requires all insurers, reinsurers, IAMCs, insurance agents and brokers operating in China to be licensed with CIRC. Insurers must be either life or non-life insurers. They can be shareholding companies, limited liability companies or mutual insurers. Insurers may be local companies or foreign-owned subsidiaries. Similar requirements apply to brokers and reinsurers, who may also establish branches. There are restrictions on foreign ownership. If 25 percent or more of a Chinese insurance company's shares are held by foreign entities, the company is deemed to be foreign-funded and is regulated under the Regulations on the Administration of Foreign-Invested Insurance Companies. Companies with foreign ownership below the 25 percent threshold are deemed to be domestic and are regulated under the Regulations for the Administration of Insurance Companies. When international or foreign-funded insurance companies apply for a license, CIRC consults with the respective supervisory authority to investigate the appropriateness of the applicant. Domestic insurers are also the only companies which are allowed to write the compulsory classes (apart from motor third party liability). Licensing requirements for insurance are set out in the Insurance Law and unlicensed operations can be sanctioned. The licensing requirements are clearly stated and cover financial as well as nonfinancial aspects to warrant sound operations. All applications for licenses are granted for a specific province and have to be made to CIRC. Minimum capital requirements must be met by the applicants as well as the other requirements related to the form of their organization, the eligibility of their shareholders, the qualifications of their senior management and actuarial staff, the

adequacy of their information systems and the suitability of their products. When an application for the license is made, there are also some other requirements that must be observed as a part of the procedure: a credible three-year business plan along with information technology (IT) premises, outlines of proposed insurance products, a reinsurance plan, a marketing strategy, profitability and solvency forecasts and asset allocation plans must be submitted.

There are two stages at the granting process of licenses; first a Legal Person License for Insurance Institutions (preparatory license) and the second a License to Operate an Insurance Business. There is a maximum 12-month gap between the granting of the two licenses, which new companies use to prepare their premises and systems for final approval by CIRC. A license is required not only for the establishment of a new insurance company, but also for each branch office and call center opened by that company. For licensing purposes, each branch is treated as a separate entity and is only allowed to write business and establish sub-branches in a designated geographical area.

CIRC has established a committee called the Chinese Insurance Entities Access Examination Committee for the domestic companies only with the aim to improve market entry and exit mechanisms and to enhance the quality and transparency of the entry examination process.

According to the Insurance Law, insurance may only be conducted by limited liability, joint stock or state-owned companies. There are regulations (not fully developed) that allow the establishment of domestic captives and mutual insurance organizations.

The minimum capital for a new insurer must be fully paid-in at the time of application and must be deposited with a commercial bank. Minimum capital may not be used before the applicant has received its CIRC license.

A domestic insurance company is defined as an insurance company with less than 25 percent foreign shareholding. According to CIRC regulations, no shareholder may hold more than 20 percent of a domestic insurance company's shares during its first three years of operations. Shareholders may be either companies or private individuals. Corporate shareholders must have net assets of at least RMB 200 million, a good credit record and no serious legal violations during the previous three years.

CIRC, following the Insurance Law and Administrative Permission Law, after reviewing the license applications, gives a written response to all the applicants to notify them whether CIRC approves or rejects the application, and posts the decision on the CIRC website.

Licensing criteria for domestic insurance companies

<table>
<tr><td></td><td>Article 4 of the Administrative Measure on Equity Interests in Insurance Companies allows shareholders to increase their shareholdings above 20 percent after three years in operation to a maximum of 51 percent subject to the following conditions:

• total assets of at least RMB 10 billion at the end of the previous year;
• net asset value of not less than 30 percent of total assets;
• the value of long-term equity investments (including insurance investments) being no higher than net asset value; and
• having been a shareholder in the insurance company for at least three years.

Shareholders with more than a 20 percent stake in an insurance company may not sell their shareholding in less than three years without the approval of the CIRC. The Notice on Relevant Issues Regarding Investment and Shareholding of Limited Partnership Equity Investment Enterprises in Insurance Companies allows a "limited partnership equity investment enterprise" established by domestic and/or foreign financial investors to acquire up to 5 percent of a domestic insurer's equity and all such investors to acquire up to 15 percent of the insurer's equity in total.

Licensing criteria for foreign entity

Foreign companies can enter the Chinese market as branches (if reinsurers), as joint ventures with a maximum 51 percent shareholding, or as wholly owned subsidiaries. In practice, most applicants now apply for subsidiary status.

In order to be considered for a branch, joint venture or subsidiary license, foreign insurers must satisfy the following conditions:

• representative office in mainland China for at least two years;
• total assets of at least US$5 billion;
• any other conditions which the CIRC deems prudently necessary.

A mutual insurance organization shall arrange reinsurance to control its risks and contribute to the policyholders' protection fund. It shall be authorized and supervised by the CIRC in a similar way to an insurance company.</td></tr>
<tr><td>Assessment</td><td>Largely Observed</td></tr>
<tr><td>Comments</td><td>The Insurance Law sets out licensing requirements for insurance and for unlicensed operations. The law clearly states the requirements and covers financial as well as nonfinancial aspects to ensure the implementation of safe and sound operations. During the licensing process, CIRC attaches great importance to the views of overseas regulatory authorities. It requires foreign applicants to provide their supervisors' letter of opinion.

It is recommended that CIRC consider making increased use of inputs from foreign supervisors as an alternative proof of compliance on some key licensing criteria.</td></tr>
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ICP 5	**Suitability of Persons** The supervisor requires Board Members, Senior Management, Key Persons in Control Functions[2] and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.
Description	The Measures for the Administration of the Equities of Insurance Companies describe the requirements for founders, board members, significant owners, founders of legal entities and people who enjoy management and control, managing directors, general manager, deputy general managers, key persons in control functions—appointed actuary, head of the risk and compliance audit and significant owners persons who perform duties and have powers equivalent or superior to the post of deputy general manager, even if they have other titles, and auditors. In terms of review and approval of qualifications, in addition to reviewing the basic profile of the candidates, CIRC focuses especially on a comprehensive evaluation of their characters, professional knowledge, and job performance, in particular their performance of anti-money laundering obligations so as to ensure that they are suitable for the companies in both professional competence and personal character. They have to pass an exam and they have to attend an interview with a senior staff member at CIRC. CIRC requires an insurance company to promptly report any change of its directors, supervisors, senior managers or significant owners as well as any circumstances that would materially and adversely affect the suitability of these individuals. In terms of ongoing supervision, CIRC oversees that each insurance company is run by team of directors and senior managers who are attuned to compliance management and risk management and can promote the sound development of the company. The suitability of directors, supervisors, and senior managers is maintained by training, off-site supervision and other supervisory means. In CIRC, departments conduct regulatory interviews based on their resources and the risk level of the candidates and roles. While Property and Casualty Insurance Department has more resources and interviews most of the candidates, candidates of more important roles are interviewed by higher-ranking officials in the department. In other departments such as Development and Reform Department (DRD) and Legal Affairs Department, not all candidates are interviewed. Only candidates of concern and of major roles are interviewed. Additionally, CIRC has created an IT system for tracking the employment history and job changes of directors, supervisors and senior managers and feedbacks on related issues and events, and if necessary, will suspend them for investigation or will work with the judicial authorities to ensure the suitability of directors, supervisors, and senior managers.

[2] Control functions include risk management, compliance, actuarial and internal audit functions.

	CIRC can at any time request and check documentation to support ongoing compliance. False, misleading, inaccurate or incomplete information can result in sanctions.
Assessment	Observed
Comments	CIRC maintains appropriate requirements for the suitability of key personnel. The growth of the insurance market and the demand for highly qualified and experienced management skills should be monitored. It is recommended that CIRC increase its emphasis over time on competence assessment, in relation to the role of the individual, taking account of the scale and nature of the company's business.
ICP 6	**Changes in Control and Portfolio Transfers** Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.
Description	*Changes of control* The requirements to approve significant ownership or control proposals for an insurer are found in Article 15 and 84 of the Insurance Law. The Insurance Law and other regulations clearly define thresholds and provide for requirements on insurers and those seeking to acquire ownership or a controlling interest. The term control is defined under Articles 4, 36, 42, and 216 of the Company Law, which also provides that the rights that a shareholder is entitled to are proportional to its shareholding. Control is defined in the Article 86 of the Insurance Law: CIRC is to review and approve any transaction that involves the change of 5 percent or more of the equity interest in an insurance company, and to receive and process the filings for those that involve less than 5 percent of the equity interest. An acquiring party must notify CIRC and approval by CIRC is also required where a potential assignee's current shareholding (including that of its associates) is under 5 percent but may reach or exceed the 5 percent level through subscription of additional shares or share transfers. During the processes of change in equity interest and the criteria for assessing transactions in the legislation are closely aligned to licensing conditions and should meet the following requirements: having sustainable profit-making capability, good credit standing, no record of major violations of laws or regulations in the last three years, and should be approved by the CIRC. After the change in equity interest, newly-added board members and senior management of the controlling shareholder should meet qualification requirements and be submitted to the CIRC for approval.

	CIRC pays special attention to change in control where foreign funded insurance companies are affected. For non-life business, foreign funded insurers must present a Chinese registered company as a partner. Article 8 of the Regulations on the Administration of Foreign-Funded Insurance Companies applies to the purchase of shares of an insurance company by a foreign-funded financial institution. The requested transaction shall be approved by the relevant authorities of the home jurisdiction (Item (6) of Article 8). The change of equity interest of a foreign-funded insurance company is governed by the Insurance Law and other applicable laws, administrative regulations and rules of China. According to the Measures for the Administration of Mergers and Acquisitions of Insurance Companies, any transaction that involves the merger or acquisition of an insurance company is subject to the approval of CIRC, which has the power to review these applications. The Measures set forth the eligibility criteria for any major shareholder whose equity interest in the company is 15 percent or more or whose equity interest is less than that but can nevertheless directly or indirectly control the company (Article 15 of the Measures). This provision not only applies to investors of a new insurance company, but also to shareholders during the existence of an insurance company. The Notice Regulating Relevant Matters Concerning Chinese-Funded Insurance Companies' Invitation of Foreign Equity Investment has recently been modified by the Administrative Measures on the Merger and Acquisition of Insurance Companies, which allow an acquiring company to own a maximum of two insurers in the same branch of business (life or non-life). In this context, acquisition means (1) acquiring more than one-third of the equity in an insurance company and becoming the largest shareholder or (2) acquiring one-third or less but becoming the largest shareholder and the holder of a controlling interest. Such acquisitions must be held for a minimum of three years before being sold on. *Portfolio transfers* China has developed insurance specific regulation on portfolio transfer. Under Article 3 of the Interim Measures for the Administration of the Transfer of Insurance Business by Insurance Companies, any transfer by an insurance company of all or part of its business shall be subject to the approval of CIRC. Articles 8, 9, and 10 have set out the requirements for the financial position of the transferee and the transferor. Articles 13 and 14 contain provisions that protect the rights and interests of policyholders under such a transfer. CIRC can arrange for voluntary or compulsory portfolio transfer of the obligations under the policies from a failing insurer to another insurer that accepts this transfer.
Assessment	Observed
Comments	The legal framework and CIRC's powers ensure that changes in control, broadly defined, are notified to CIRC and that it can prevent changes that could place policyholders at risk. CIRC is well-equipped to address any increase in merger activity in case of industry consolidation.

ICP 7	**Corporate Governance** The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.
Description	Corporate governance is one of three key areas of focus in CIRC's insurance regulation, alongside solvency and market conduct. Its approach is based on standards, many of them in the form of guidelines, self-assessment and supervisory reporting and oversight. (There are plans to transform some of the guidelines into binding requirements in 2017 in line with general CIRC policy to start with guidelines and interim requirements and develop them into rules over time in the light of experience). Basic corporate governance requirements are set out in general company law, which provides for a form of two-tier board system: a board of directors and a board of supervisors, both of which have responsibilities to shareholders and reporting obligations to CIRC. Article 46 of the Company Law sets out rules on the powers of the board of directors. For insurers specifically, CIRC has set out requirements in relation to: • the duties and responsibilities of the directors, as well as senior managers and key employees (Articles 23 to 31 of the Guidelines on the Operations of Board of Insurance Companies—Board Operation Guidelines); the board must oversee the activities of senior managers and protect the interests of the company, shareholders, the insured and other stakeholders; similar provisions must also be included in insurers' Articles of Association (Board Operation Guidelines and the Opinions on Regulating the Articles of Association of Insurance Companies - AoA Opinions); • the duties and responsibilities of senior management, requiring companies clearly to define the relationship between the board and the senior management (Interim Guiding Opinions on Regulating the Governance Structure of Insurance Companies -Governance Guidelines); and • the duties of the appointed actuary, chief compliance officer and other key employees (Governance Guidelines). Most of the requirements focus on the board of directors, which is also the interface for CIRC in supervisory work. At the time of the assessment, CIRC was consulting on draft requirements that would elaborate on their expectations of the board of supervisors. *Board membership and committees* Under Article 38 of the Board Operation Guidelines, insurers must have between 7 and 13 directors, composed of executive, non-executive and independent directors. While all must have the appropriate level of professional expertise (see ICP 5), there

	must be a number of financial and legal professionals on the Board, and insurers are encouraged, though not required, to appoint actuaries as directors. CIRC attaches considerable weight to the role of independent directors of the Board (Interim Measures for the Administration of the Independent Directors of Insurance Companies). To be independent, a director must not hold a position with the controlling shareholder or other party that may influence the affairs of the company. Arrangements for their nomination, election and dismissal and their duties and obligations are prescribed, including rights to call an extraordinary meeting of shareholders and report to CIRC in certain circumstances. Insurers must have a minimum of two independent directors and one third must be independent in the case of larger companies (assets over RMB 5 billion). CIRC seeks to assess the independence of such directors, when interviewing director candidates (ICP 5). Many have backgrounds in law firms or academic life. To reinforce continuing independence, they may serve only two three year terms. Expert independent directors are not always readily available to insurers and CIRC plans to establish and give access to insurers to a pool of independent director candidates. Insurers are required (under the Board Operation Guidelines) to establish audit, nomination and remuneration committees under the Board. They must also establish a Risk Committee (Guidelines on Risk Management of Insurance Companies). *Conflicts of interest, etc.* Under the Board Operation and Governance Guidelines, directors must possess good moral character and reputation, owe a fiduciary duty to the company and shall not seek gain by abuse of their positions. Directors are to have an obligation of care and diligence towards the company. They must make available sufficient time to perform their duties. *Remuneration* There are general obligations on insurers to establish appropriate remuneration arrangements (Guidelines for the Compensation Management Rules of Insurance Companies). While the requirements focus mainly on linking remuneration to performance evaluation, there are requirements on insurers, in respect of relevant positions, to divide remuneration into fixed and variable elements and for variable remuneration to be deferred for three years. Key persons in control functions must be remunerated, in relation to variable elements, on the basis of their own performance measures and not according to general business performance. The framework does not create explicit obligations on the board of directors in relation to remuneration. *Financial controls and external audit*

	Under the Regulations on Accounting of Insurance Companies, insurers must define the respective duties of the Board of Directors and management in relation to accounting matters and establish a financial reporting process to ensure that the company can submit its annual financial reports and audit reports to supervisors. The Company Law provides that the appointment and dismissal of the auditor of the company shall be decided by its Board of Directors or the shareholders general meeting. CIRC observe in practice that the decision is taken by the Board. The Audit Committee of the Board is responsible for oversight of the external audit process. *Groups* CIRC's Measures for the Administration of Insurance Group Companies set out (Chapter IV) provisions on corporate governance, which combine requirements specifically on the governance of the insurance group company itself with provisions on group oversight of the governance (and other aspects of the management) of other group member companies. There are also requirements in the Guidelines for the Consolidated Supervision of Insurance Groups for insurance groups to establish and implement a corporate governance framework that covers the whole group to meet the risks faced by the group. *Supervision* Supervision of corporate governance is based on: • off-site review, focused on the submission by insurers of a corporate governance self-assessment in a format (with ratings) prescribed by CIRC (while the self-assessment is not published, the rating is, on a quarterly basis); • targeted on-site inspections under a program established in 2013 (by the end of 2015, 38 companies, including group companies and IAMCs had undergone inspections); where issues are identified, CIRC issues a regulatory letter (see ICP 9); and • inclusion in recent years of corporate governance in comprehensive inspections, particularly (but not limited to) problem companies. As part of their supervisory approach, CIRC will also ask for board minutes. They also attend board meetings as observers. Their relationship generally is with the executive management and where they have supervisory messages to convey they do so to the chief executive. CIRC also takes account of corporate governance issues in the C-ROSS system through its assessment of operational risk (see ICP 17).
Assessment	Largely Observed
Comments	CIRC's increased focus on corporate governance regulation and supervision in recent years has been reflected in the development of its standards, the introduction

	of a self-assessment and rating system and increased supervision, including targeted inspections. There are requirements applying to insurance groups. The publication of corporate governance ratings is a potentially powerful tool for improving standards. As in other areas of regulation, many of the standards take the form of guidance rather than binding requirements (see ICP 1). The approach is still developing in practice and there is scope to develop the framework for groups and to increase the supervisory focus on the effectiveness of governance, especially at board level, including whether Boards of Directors are instilling appropriate corporate culture, hard though this is to assess (more supervisory contact directly with boards would assist). The separation of CIRC's processes for corporate governance regulation and supervision from those applying to risk management, which are also much more closely integrated into the solvency requirements via the SARMRA process (see ICPs 16–17), has facilitated the increased focus on governance, but creates a risk that linkages (and shared areas of weakness) are not identified. It is recommended that CIRC: • develop further its expectations on corporate governance of groups, recognizing the existing significance and likely increasing importance of groups, including financial conglomerates, and drawing on recent IAIS work in this area, as applicable; • develop a set of binding requirements in due course to strengthen existing mainly guidance-based material; and • develop its supervisory approach over time (recognizing the priority of embedding C-ROSS/SARMRA) to equip supervisors to assess the effectiveness of governance more fully, and to integrate the assessment of corporate governance within the C-ROSS process more completely.
ICP 8	**Risk Management and Internal Controls** The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.
Description	There are extensive requirements on insurance company risk management and controls and in practice CIRC has been focusing on strengthening risk governance in the context of the new C-ROSS solvency framework (see ICP 17). As in other areas of the regulatory framework, many of the standards take the form of guidance of various forms. *Risk management and Internal controls* In relation to the controls framework generally, insurers:

	• are required to have a risk management system to identify, assess and control their risks (CIRC Guidelines on Risk Management of Insurance Companies); and • must establish a comprehensive and well-regulated internal control system, strengthen the internal control infrastructure and prioritize the control of major business matters and high-risk areas (Fundamental Rules for Internal Control of Insurance Companies). Under the framework, the Audit Committee of the Board of Directors has a key role. All insurers must establish such a committee. It must have responsibility for reviewing risk assessment reports submitted by the risk management department on a periodic basis and should propose suggestions for improvement with respect to any risk issues. CIRC has begun to directly assess the effectiveness of controls over risk and risk management in the context of its implementation of SARMRA—see ICP 16. In practice, while previously-issued guidelines continue in-force, SARMRA has become the principal (and comprehensive) set of requirements on risk management for insurers, covering basic requirements on risk appetite, risk policies and risk monitoring as well as specific inputs into solvency assessment. *Control functions* There are requirements covering the four control functions. All insurers: • must set up a risk management department responsible for examining the risk position of the company and submitting periodic risk assessment reports (Guiding Opinions on Regulating the Governance Structure of Insurance Companies); • should set up a compliance management department or a compliance position, to develop and implement compliance policies and carry out compliance surveillance and training so as to prevent, identify, assess, report on and respond to compliance risks (Guidelines for Compliance Management of Insurance Companies); • should set up an appointed (also referred to as chief) actuary position (in both life and non-life companies) with responsibilities for the pricing of products, assessment of statutory liability reserves, determination of dividend distribution plans amongst other duties (Measures for the Administration of the Appointed Actuaries of Insurance Companies); and • should set up an independent internal audit department to inspect internal control and submit periodic internal control assessment reports (Guiding Opinions on Regulating the Governance Structure of Insurance Companies). There are differing provisions in the relevant measures on the authority, independence and resourcing of control functions.

	In the case of internal audit, there must be a direct reporting line to the Audit Committee of the Board; and the staff of the function must account for no less than 0.5 percent of the insurer's total staffing. Its budget, human resources and operations must be managed separately from the business departments so as to prevent influence. Similarly, for the risk management department, insurers classified as Class I for C-ROSS purposes (broadly the largest—see ICP 16) must maintain a minimum of eight staff (they are also required to have a Risk Management Committee of the Board). There are no quantitative requirements for the actuarial and compliance functions. CIRC relies on ensuring there are individuals of adequate seniority (senior managers subject to CIRC approval—see ICP 5), including a Chief Risk Officer and Chief Compliance Officer. The authority of the Appointed Actuary also derives from the tasks and responsibilities assigned to the role in CIRC requirements, including the submission of actuarial opinions on reports to CIRC. For life insurers, CIRC has been seeking to strengthen the position of the Appointed Actuary further with guidance, for example on length of experience, term of service and "lifelong responsibility" (Notice on Strengthening the Administration of Appointed Actuaries of Personal Insurance Companies, issued in 2013). There are no explicit requirements on control functions in relation to the promotion of good culture (for example good risk or compliance culture) within the insurer. Such responsibilities fall to the board and management of the company in the CIRC framework. *Groups* There are risk management requirements, related to solvency in particular, applying to groups in the C-ROSS framework (Solvency Regulatory Standards No 17: Insurance Groups, Articles 31 to 38). There are also broader risk management and internal control requirements applying to the insurance group holding companies ((currently 12—see ICP23) in the Measures for the Administration of Insurance Groups (Chapter IV on corporate governance) in respect of group risk management and internal control systems, group internal audit (and audit committee) and compliance, but not for a risk management department or actuarial function. *Supervision* Insurers are required to make reports to CIRC annually evaluating their internal controls and annual reports on their compliance (Interim Guiding Opinions on Regulating the Governance Structure of Insurance Companies—Governance Guidelines). The supervisory approach is similar to that for corporate governance (see ICP 7 and ICP 9).

	Outsourcing Outsourcing by insurers is relatively limited in China. CIRC does not permit them to outsource claims handling, for example, or to confer delegated authorities (for underwriting) on third parties. They may use professional services, including loss adjusters. Actuarial and compliance functions may not be outsourced, even by smaller insurers. Internal audit and risk management functions may be outsourced, subject to CIRC approval, which would be given in practice only to smaller companies. Any outsourced function remains subject to the internal control requirements. CIRC has issued standards on outsourcing only in relation to call centres (Notice on Promoting Well-Regulated Development of Telephone Marketing of Life Insurance Companies). The use of third party or the insurer's own separate call centre must be notified to the local CIRC Bureau and there are requirements on IT, etc.
Assessment	Largely Observed
Comments	There is an extensive set of standards, although much of them taking the form of guidance, on risk management, internal controls and control functions. CIRC's approach is being enhanced through the implementation of the SARMRA framework. Some requirements apply to all, while in other areas CIRC tailors its expectations to the nature, scale and complexity of the insurer. The system is reinforced by the suitability requirements and by reporting to CIRC. The core requirements apply to individual insurers and while there are solvency risk management requirements applying to groups in the C-ROSS, there is less coverage of controls or control functions in the group context. There is scope to strengthen requirements on the authority, independence and resourcing of control functions, including access to the Board. Standards on outsourcing are limited, reflecting regulatory restrictions, although some outsourcing even of control functions is permitted. It is recommended that CIRC: • continue to strengthen its expectations of control functions (other than internal audit) in relation to independence and resourcing and the scope of their responsibilities; • review the need for more guidance or other material on group level risk management and develop standards on outsourcing that would apply to any outsourced activities; and • develop a set of binding requirements in due course to strengthen existing mainly guidance-based material on risk management, etc.

ICP 9	**Supervisory Review and Reporting** The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.
Description	*Regulatory authority* Regulatory authority for insurance supervision is largely vested in the Insurance Law, the Solvency regulatory standards and *Notice on Initiating the Use of China Insurance Statistical Information System* Regulations on monitoring and supervision. Chapter VI (Insurance Supervision and Regulation) of the *Insurance Law* provides CIRC with broad-based powers to supervise all insurance operations of insurance and reinsurance companies operating in China as well as insurance and reinsurance intermediaries, loss-adjusting activities, actuaries and other persons operating in the insurance sector. *Supervisory framework* A cooperation mechanism between the head office and the local offices has been established. The head office and local offices of CIRC participated in the C-ROSS supervision together. For example, 36 insurance regulatory bureaus and related sub-bureaus fully participated in the SARMRA on-site assessment work of insurance companies. In addition, 36 local bureaus directly are involved in IRR and they are responsible for the insurance branch company data submission and evaluation. During day-to-day supervision, CIRC adopts a classification-based supervision system. Each quarter, based on the integrated risk ratings (IRR) of insurance companies, CIRC classifies them into categories A, B, C, and D and applies different regulatory policies and measures to each category in order to boost the efficiency of risk-based supervision. • Category A companies meet the required solvency standard and present no problems in corporate governance, asset utilization or market behavior. • Category B companies meet the required solvency standard and present certain problems in corporate governance, asset utilization or market behavior. • Category C companies do not meet the required solvency standard or present comparatively serious problems in corporate governance, asset utilization or market behavior. • Category D companies fall seriously below the required solvency standard or present serious problems in corporate governance, asset utilization or market behavior.

	Categorization is determined by how an insurer scores in relation to five specified monitoring indices. Evaluation is conducted once a quarter on the basis of the previous 12 months' data. Depending on their categorization, companies may be subject to the supervisory actions set out below. • Category A companies are not subject to any special regulatory measures. • Category B companies are required to submit and comply with a rectification plan and may be subject to increased on-site inspections. • Category C companies may be subject to a wider range of requirements, including an increase in capital or a restriction of dividend payments; a reduction in management remuneration; restrictions on branch expansion; restrictions on business scope or new business activity; portfolio transfer or increased reinsurance cessions; sale of assets; restriction on investments; changes of senior management. • Category D companies may be subject to a wider range of requirements, including forced takeover. CIRC has in place a Solvency Regulation Committee and a sophisticated risk surveillance and analysis mechanism and its departments, on the basis of off-site analysis and on-site inspections, consult with each other, use all available information to carry out comprehensive analysis of the risk position of the insurance market and insurance institutions, and discuss key risk points and regulatory measures, at the quarterly meeting of the Solvency Regulation Committee, in order to form solutions and take appropriate actions. Up to now, the Solvency Regulation Committee has held 35 quarterly meetings. *Regulatory reporting* Most of the information needs of CIRC is met through an electronic filing system. The system collects and maintains quarterly and audited annual financial statements in formats determined by CIRC. The system also includes indicators that allow for identification and correction of inaccurate reporting from insurers. Currently, CIRC does not have in place reports specifically designed for off-balance sheet exposures and material outsourced functions and activities. Articles 74 and 75 of *Solvency Regulatory Standard No. 16: Solvency Report* provide that if an insurance company becomes insolvent at any time or any event which has a material adverse impact on its solvency arises, the insurance company shall report the situation to CIRC within five working days upon such detection; Article 76 of the *Standard* provides that if an insurance company is exposed to major liquidity risks, it shall report the situation to CIRC within two working days upon such detection. In its day-to-day supervision, CIRC requires insurance companies to promptly report on

	changes and events which may have a material impact on their business, operations, or solvency. Off-balance sheet exposures and material outsourced functions and activities of insurance companies are included in the scope of matters which the functional departments of CIRC track on a day-to-day basis. CIRC requires insurance companies to provide statements and explanations on issues which warrant attention according to CIRC. *Off-site monitoring* CIRC's off-site supervision mainly relies on collecting, analyzing and processing information relating to the insurers to monitor and evaluate their risks and to facilitate the issuance of early warnings in case of concerns and the operation of the classification-based supervisory regime. CIRC's core supervisory process are off-site analysis based on the financial and technical data reported by insurers and on-site inspection driven by a risk weighted classification system, as described above. CIRC collects data from insurers on over 100 indicators and uses this information and supervisory judgment to classify these risks as (in total) very high, high, low or very low. The combination of the solvency ratio number and the assessed level of unquantifiable risks, with the application of weightings, drives the IRR (A to D, as described above), which is assessed quarterly and also communicated to insurers. The Statistics and IT Department compiles data and tables on the national insurance industry; analyzes the statistical information of the insurance industry, prepares the statistical analysis report, and provides support for Off-site supervision and risk monitoring—off-site supervision and risk monitoring (OSSRM); and conducts OSSRM on insurers with regard to their IT security. • The Property Insurance Regulatory Department and the Life Insurance Regulatory Department are responsible for (i) the OSSRM on the businesses of the property insurers/reinsurers and life insurers, respectively; and (ii) consolidating the data generated from the regulatory activities of other departments to monitor and determine the overall risk of property insurers, reinsurers, and life insurers. • The DRD conducts OSSRM on the corporate governance of insurers as well as on insurance group (holding) companies from a group-wide perspective. • The Investigation Bureau conducts off-site supervision on insurers to prevent case risks. • The Insurance Intermediary Regulatory Department conducts OSSRM on insurance intermediaries and consolidates the data generated from the regulatory activities of other departments to determine the overall risk of intermediaries.

	Findings from risk monitoring and analysis and other information generated from off-site supervision are shared among the relevant departments. In 2004, CIRC issued the *Notice on Initiating the Use of China Insurance Statistical Information System* which contains provisions on the content of information submitted by insurance companies, the frequency, time and scope of such submission, and the method for handling of wrong information. In addition, the functional departments of CIRC have also required insurance companies to submit financial and actuarial information and information on products, use of funds, and liquidity on a periodic basis for supervisory needs, and prescribed the scope, content and frequency of the above reports and information; and stated that they may require more frequent and/or more detailed additional information on a timely basis if needed. *On-site inspection* The scope of onsite inspections is determined as part of the annual planning process. The Inspection Bureau provides for planned and unplanned supervision activities. CIRC has formulated the *Working Procedures of China Insurance Regulatory Commission on On-Site Inspections* to set clear and well-rounded norms for on-site inspections. For example, Article 12 of the *Working Procedures* provides that the inspection team shall prepare an on-site inspection plan based on the inspection program and the conditions of the entity to be inspected. The plan shall include, among other items, the entity to be inspected, the ground, purpose, scope, content, method, schedule and procedures of such inspection, distribution of responsibilities among members of the inspection team, disciplinary requirements. All inspection teams will prepare such a plan and define the purposes and scope of the inspection prior to these inspections and will adhere to the plan during inspection. The Inspection Bureau is responsible for: (i) the day-to-day work of the Inspection Committee; (ii) organizing and coordinating major inspections including the development of the annual on-site inspection plan; (iii) organizing the investigation and handling of major risks and cases in the insurance industry; and (iv) working with relevant authorities to investigate and handle reported illegal activities and misconduct. The Insurance Consumer Interests Protection Bureau conducts targeted inspections for matters related to consumer protection, and investigates and handles general cases of consumer rights violations. Additionally, all departments transfer major cases to the Investigation Bureau, the scope and procedures for which are determined by the Investigation Bureau in consultation with the relevant departments. Any findings from an investigation will be forwarded to the appropriate department.

	In the past, on-site supervision had been the dominant form of insurance supervision in China. With the growing number of insurance market entities, the limitations of on-site supervision became apparent, triggering a transition toward off-site supervision. On-site supervision is now used in a targeted manner based on information gathered from off-site supervision, which conserves regulatory resources and increases regulatory efficiency. The supervision of groups is heavily reliant on coordination between units within CIRC and a small coordination team. Supervision is carried out by functional departments in CIRC and five staff are responsible in DRD for the CIRC's oversight of insurance groups. CIRC's Solvency Regulation Committee-consists of the vice-chairmen and general managers of CIRC. Under the risk surveillance and analysis mechanism, departments consult with each other, use all available information to carry out comprehensive analysis of the risk position of the insurance market and insurance institutions, and discuss key risk points and regulatory measures, at the quarterly meeting of the Solvency Regulation Committee, which agrees appropriate actions to be taken by the relevant department. CIRC also uses other reported information to assess the insurance companies and to use this information to decide whether on-site inspections are needed. Off-site monitoring involves both CIRC HQ and the bureaus. This information extends to financial condition and performance, including financial information on any subsidiary of the insurance company. Reporting to CIRC is being enhanced under the C-ROSS (Pillar 3) requirements from January 2016. More detailed reports on the financial position and risks of insurers will have to be publicly disclosed and in the Regular Supervisory Report (RSR). Beside these narrative reports CIRC will receive detailed quantitative information both quarterly and annually. Reporting of group information, based on the C-ROSS, will be extended. CIRC was in the first year of implementation C-ROSS at the time of the FSAP. Targeted and comprehensive on-site inspections are followed up promptly with reports from CIRC to management. CIRC always uses its own staff for on-site inspection tasks rather than outsourced experts. The report of the inspection is sent in a confirmation letter addressed to the senior management emphasising facts and problems along with suggestions on rectification. The inspected company is required to comment on the confirmation letter in 10 days. Based on this, CIRC decides on the final correction plan and informs the inspected company. Normally, a period of 12 months is given to implement the agreed rectification plan. A second report referring to sanctions and fines is reviewed by the Administrative Penalties Committee. CIRC has made the review of corporate governance a normal part of its on-site inspections, and through a combination of targeted and comprehensive inspections,

	has continuously increased the intensity and depth of these reviews. CIRC conducts targeted inspections on corporate governance annually since 2013; and as of the end of 2015, 38 companies, including group companies, life insurers, P&C insurers, and asset management companies, had gone through such inspections, which cover matters relating to the equity structure; shareholders' general meeting; board of directors; management structure and operations; performance of directors, supervisors and key employees; related-party transactions; remuneration management; and internal audit and internal control. Recent examples of on-site supervisory work carried out by supervisors are on products and sales practices at an insurer. *Organization and resourcing of supervision* Supervision is undertaken by various units within CIRC, both institutional and functional/specialist. The core supervisory team consists a legal expert, an economist and a mathematician or actuary. CIRC has created a three-layer organizational structure comprising CIRC headquarters, provincial local offices and prefecture-city Insurance Sub-Bureaus.
Assessment	Largely Observed
Comments	The evolution of Chinese insurance regulation is bringing the market closer to international best practice. Although the CIRC has been working to move to fully risk based supervisory approach using supervisory tools such as C-ROSS and SARMRA, it is challenged by limited resources and technical capacity in an environment of fast growth in the insurance sector. Prerequisites for effective risk-based supervision are adequate resources, good insurance knowledge and judgment by staff, and strong requirements concerning institutional governance and internal controls. A risk based approach to supervision requires not only changes to supervisory tools, policies and procedures of the organization, but the change of basic supervisory culture. To achieve that CIRC should focus on the transition to a more risk based approach which includes the need to increase its level of resources, and to institute stronger governance and internal control requirements. CIRC should develop a risk based supervisory plan which addresses these issues. It is recommended that: • CIRC develop stronger centralized oversight of the supervision of groups, by a system of lead supervision with adequate staffing to ensure close and continuous oversight of significant groups and able to see the group wide risks and respond accordingly. • CIRC develop its supervisory framework to include more emphasis on a risk-based supervisory plan to bring together all the issues and actions on an insurer, including market conduct. This is particularly important in an increasingly competitive market with an expanding number of companies.

ICP 10	**Preventive and Corrective Measures** The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.
Description	Article 158 and 159 of the Insurance Law empower CIRC to "apply necessary measures to ensure that insurance companies, IAMCs, insurance agents and brokers meet the legal requirements and commitments to policy holders." CIRC processes pay specific attention to prevention. The regulatory and supervisory reporting is analyzed automatically and generates forecasts and trends which are referred to supervisors for further action. This includes monitoring technical performance through reserving levels and performance ratios and solvency levels. The trigger for preventive and corrective action in China is the breach of regulatory requirements. The usual practice of CIRC for minor contraventions is to send a regulatory letter and request the insurer to remedy the problem. If not corrected, a second notice (regulatory letter) is sent and then, as necessary, administrative penalties are applied. In the case of more serious breaches, monetary penalties, suspension of individuals, and activities, and revocation of licenses are permitted by the legislation. Based on the nature of the problem, CIRC may ask for different timetables in cases of an emergency. The timetable can be shortened at CIRC's discretion. Preventive measures include regulatory interviews with the auditors, directors, supervisory board and senior managers of the insurer where insurers are required explain issues on its insurance business operation, risk control and internal management. CIRC can request programs for rectification to be submitted. Those programs normally involve: • ordering an increase of capital or reinsurance; • limiting the scope of business; • restricting the payment of dividends to shareholders; • restricting the payment of dividends to shareholders; • restricting the purchase of fixed assets or the scale of operation costs; • restricting the purchase of fixed assets or the scale of operation costs; • restricting the forms and proportion of use of funds; • restricting the formation of additional branch offices; • ordering an auction of non-performing assets or transfer of insurance business; • restricting the level of salaries of directors, supervisors and senior managers; • restricting commercial advertisements; or • ordering a stop of accepting new business. Each administrative breach is subject to only one penalty. Penalty levels escalate with the nature and seriousness of the offence and there is a general two year statute of limitations from the date of commission of the offence.

	CIRC has the power to take action against unlicensed activity. It has the ability to escalate corrective action where a breach has occurred and in the case of solvency breaches can require a plan of corrective action. It can also communicate directly with the board and senior management. The Insurance law and CIRC processes set out an escalation process. Where an insurance company fails to make a correction within a prescribed time limit, CIRC may decide to send in insurance professionals and appoint suitable persons of the insurer to form a rectification team. A rectification decision letter shall list the reasons for rectification, the members of the rectification group and the period of rectification. This letter will be made public. An insurance company will be governed by CIRC when either the company is seriously insolvent; or the company damages the public interests in violation of the insurance law.
Assessment	Observed
Comments	CIRC has the power to take action against unlicensed activity and the ability to escalate corrective action where a breach has occurred and in the case of solvency breaches can require a plan of corrective action. It can also communicate directly with the board and senior management. It does not have many tools to take preventative action before an administrative breach has occurred, other than through discussion and agreement to inspection/examination findings.
ICP 11	**Enforcement** The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
Description	The formal authority to issue formal directions to companies rests with CIRC. CIRC is empowered to issue guidance to companies to take particular actions or to desist from taking particular actions. In cases when companies do not comply with CIRC's requests, it has the right to apply administrative sanctions. In cases of violations of the Criminal Code by insurers, CIRC must transfer the case to judicial prosecutors for further investigation. CIRC has a range of powers to enforce corrective action and where necessary impose sanctions. The Insurance Law contains specific provisions on the powers of CIRC, including the powers to adopt regulatory measures in the event of any problems relating to premium rates, solvency, liability reserves, and use of funds, and to conduct on-site inspections obtain evidence, or request a freezing or sealing-up order from a court. Furthermore, the Law also provides for various punitive measures against illegal acts. If an insurance company poses a material risk, CIRC may take a number of measures against the insurance company, including but not limited to issuing a warning, imposing a fine, restricting its scope of business, ordering it to crease accepting new business, or revoking its insurance license, and impose sanctions on the persons held responsible for the violation, such as issuing a warning, giving a fine, disqualifying them from their position and imposing a barring from insurance industry. CIRC imposes administrative sanctions pursuant to the procedures set out

	in the *Provisions on the Administrative Punishment Procedures of the China Insurance Regulatory Commission* to ensure that the sanctions are enforced in a fair, just and open manner. Persons refusing to submit information, (i.e., reports or documents required during the administrative investigations); hiding, preventing or not authorizing access of the officers to their files; or providing requested information with significant errors or in an incomplete manner can be subject to administrative penalty or criminal prosecution. CIRC generally checks that corrective action has been taken through the exercise of its supervisory framework as well as through more direct monitoring of files. The chapter Legal Liability under the *Insurance Law* specifically provides for administrative sanctions against companies committing violations and their personnel held responsible. In addition, the *Administrative Punishment Law* provides that measures designed to impose administrative sanctions shall be proportionate to the fact, nature, circumstance and harm to society of the illegal act. The latest revision of the Insurance Law in 2015 did not update "Chapter VII Legal Responsibility" so the level of administrative penalties for some contraventions appears to be quite low.
Assessment	Largely Observed
Comments	The administrative penalty powers include both preventive actions and escalatory actions. Actions may be taken against individuals (e.g., suspension of officers and directors) as well as corporate entities and extend from penalties and suspensions to exercising conservatorship over the insurer in the case of failure to meet solvency requirements. The upcoming major revision of the Insurance Law (started drafting in 2015) will revise and upgrade the relevant provisions, i.e., both the lower and the upper limit of the penalty will be upgraded, which has been included in the draft submitted to the State Council. It is recommended that CIRC review the general level of penalties to ensure that they are an effective deterrent.
ICP 12	**Winding-up and Exit from the Market** The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with the insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.
Description	The legislative framework for insurer insolvency is set out in the Insurance Law and Enterprise Bankruptcy Law, while other requirements are set out in CIRC measures such as the Measures on the Administration of Insurance Companies. The framework has not been fully tested by an actual liquidation, although one life and one non-life company have received extensive assistance, including injections of capital, (from the CISF, the insurance guarantee scheme) in 2008 to 2010, in response to financial stress. Nor has the CIRC yet withdrawn an insurance company's

	license. *Voluntary winding-up* Article 89 of the Insurance Law provides that if an insurer is to be dissolved owing to a merger, for example, or other decision of its shareholders, CIRC approval shall be obtained before dissolution. The insurer then has to set up a liquidation team, which proceeds with liquidation according to the Insurance Law. There are no specific criteria set out in Article 89 on the basis on which CIRC approval would be given, but CIRC's Provisions on the Administration of Insurance Companies sets out (Articles 28 to 33) cover the processes to be followed including a requirement for liabilities to be met before assets are otherwise distributed. *Winding-up in case of bankruptcy* Article 90 of the Insurance Law provides that if an insurer fails to pay off debts as they become due and has insufficient assets to pay off all of its obligations or becomes apparently insolvent (as defined in Article 2 of the Enterprise Bankruptcy Law), the insurer itself or creditors may, after seeking CIRC approval, apply to the court for the reorganization, composition or winding-up proceedings. The CIRC itself may also seek to institute winding-up proceedings with a court. *Cancellation and liquidation by the CIRC in case of non-compliance with requirements* Under Article 149 of the Insurance Law, where the CIRC revokes the license of an insurer owing to violation of law or because its solvency is below the threshold set by CIRC and its continuing in operation would seriously damage the orderly functioning of the insurance market and the public interest, then CIRC shall cancel the company, make an announcement of cancellation and set up a liquidation team to conduct the liquidation procedure. Specific criteria for the removal of an insurer's license are set out in a number of provisions of the law in relation to particular offences, where other sanctions such as suspension of new business or penalties may also be imposed (Articles 161, 164, 165, 166, 168, and 170). These cover violations of a wide range of requirements, including aspects of the insurer's conduct. Article 93 provides for voluntary termination of an insurer's license. *Mechanisms of policyholder protection in case of liquidation* Various sources of protections are in place: • claims on the insurer representing insurance benefits attract a high priority in bankruptcy liquidation under the Insurance Law (Article 91)—although they rank behind the claims of employees of the company and in other liquidations under the Provisions on the Administration of Insurance Companies (see above);

	• in the case of life insurance, policyholders' contracts must (where possible) be transferred to other life insurance companies (Article 92 and Interim Measures for the Administration of the Transfer of Insurance Business by Insurance Companies); where the insurer itself fails to agree a transfer, CIRC itself may designate an insurer to be the transferee; and • where necessary, the CISF will provide compensation directly to policyholders (and beneficiaries) or to a life insurer to which a portfolio of contracts has been transferred (Article 100 and Measures for the Administration of the CISF). *China Insurance Security Fund (the insurance guarantee scheme)* CISF is the only guarantee scheme in China. It is managed by a state-owned company established for that purpose and subject to oversight, and regulations issued by CIRC, PBC and the MoF. Insurers are required to contribute to the CISF in proportion to their business volume (contributions are not yet risk-based). CISF's funds currently total RMB 94 billion. It may also draw on liquidity support from the PBC. Where assets are insufficient to cover the benefits under insurance contracts, the CISF will provide compensation to affected policyholders (Articles 19 and 21 of the Measures for the Administration of the CISF: • life: for individual policyholders, no more than 90 percent of the policy benefits prior to the transfer; and for a company, no more than 80 percent of the policy benefits; and • non-life: full coverage on losses up to RMB 50,000 and of any further loss, 90 percent for individual policyholders, and 80 percent for corporates. Policyholders also have the option of surrendering their policy to the CISF when its involvement is triggered. Policies written directly for policyholders overseas are excluded as is reinsurance. CISF may also provide assistance to insurance companies where they are judged to have major risks that may seriously endanger the public interest or financial stability. In the case of New China Life and China United Insurance, the insurers which experienced financial stress in recent years, the CISF was authorized by CIRC, with the agreement of the State Council, to acquire shares in the companies (and in one case a majority interest). After managing the companies back to profitability and solvency, the CISF has now disposed of almost all its interests in the companies with a net gain to CISF funds. In relation to ICP 12.2, there is no provision in legislation for a clear point at which it is no longer permissible for an insurer to continue its business, for example, where the insurer falls below a clearly-defined minimum capital requirement. CIRC's solvency requirements have a minimum capital requirement, but it is not sufficiently

	clearly such a point as yet (see ICP 17).
Assessment	Largely Observed
Comments	The legislative framework provides for a set of circumstances under which CIRC may decide that insurance companies may no longer continue in business as well as legal mechanisms for orderly exit that are likely to deliver a high degree of protection to policyholders. The framework includes a wide range of triggers, including but not limited to inadequate solvency, for CIRC to remove a company's license and criteria for initiating liquidation, although there is no clear point in the framework at which it is no longer permissible for an insurer to continue its business. Policyholders rank high in the order of preference and are eligible, in the case of domestic policyholders, for compensation for losses from the CISF. There is flexibility in practice for CIRC to manage failures, including (with State Council agreement) intervention to recapitalize an insurer using CISF resources, as has occurred in two cases since 2008. The framework has not otherwise been tested in the nearly 20 years of CIRC's existence. Establishing a clear point at which it is no longer permissible for an insurer to continue its business would help to ensure that CIRC is ready (and is seen to be ready) to trigger resolution of failing insurer without resort to CISF recapitalization, where necessary. It is recommended that CIRC: • ensure that the regulatory framework specifies a clear point at which it is no longer permissible for an insurer to continue its business, for example where the insurer falls below it minimum capital requirement (see also ICP 17); and • consider whether, given policyholder compensation is available via the mechanism of CISF (although it is not an ICP requirement), the level of protection should be increased to 100 percent in case of compulsory lines of insurance (motor third party liability).
ICP 13	**Reinsurance and Other Forms of Risk Transfer** The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
Description	CIRC permits insurers to structure their reinsurance programs broadly as they choose, including in respect of catastrophe risk, in accordance with their risk appetite and subject to their meeting standards on risk management and solvency. There are, however, limits in the Insurance Law (Articles 102 to 103) on: • the overall size of retained annual premium income relative to capital (four times); • the liability that an insurer undertakes for each risk unit (a maximum 10 percent of capital, any excess to be ceded through reinsurance); and

	• the proportion of reinsurance that can be transacted with individual reinsurers (to address reinsurance credit concentration risk). CIRC does not require insurers to obtain prior approval for their reinsurance contracts, including with related parties, although they must file with CIRC their plan for catastrophe risk reinsurance (Insurance Law, Article 104). Prior approvals were removed in 2015, partly in response to a Government of China initiative to reduce regulatory approval requirements generally in the economy. In an initiative to ensure credit quality and security of reinsurance arrangements, cedant insurers have been required since the start of 2016 to select reinsurers only from a register maintained by CIRC (the Reinsurance Registration System). To be registered on the system, reinsurers must meet objective criteria such as on their rating. Registration is automatic if they do so. Reinsurers are classified by roles they may undertake including lead reinsurer and participant reinsurer in treaty business, and reinsurer in facultative business, according to financial strength. Reinsurers do not have to have offices in China in order to be registered, although foreign reinsurers must be introduced by a domestic insurer or a domestic reinsurance broker that have been registered in the system. *(Notice of CIRC on Implementing Certain Measures Regarding the Administration of Reinsurance Registrations).* There are significant incentives in the new solvency requirements (C-ROSS) for insurers to source reinsurance from reinsurers operating in China rather than on a cross-border basis and to require collateral when ceding to a reinsurer based outside China. CIRC maintains relationships with some of the home supervisory authorities of foreign reinsurers doing business in China, including the UK and German regulators, and has an overview of their regulatory regimes for reinsurance and of other countries with reinsurers doing business with Chinese insurers. *Risk management requirements on reinsurance* There are extensive requirements on insurers' use of reinsurance, mainly in the Measures for the Administration of Reinsurance Business of Property and Casualty Insurance Companies and the Provisions on the Administration of Reinsurance Business. • Insurers are required to include reinsurance in their strategic planning, to determine the part which reinsurance will play in their business development and to set sound overall objectives for reinsurance management. • Non-life insurers shall set up an independent department for reinsurance management, appropriately allocate responsibilities for reinsurance management within the company and define reinsurance management procedures and powers.

	• All insurers have to conduct an overall assessment of their reinsurance business on a periodic basis, improve the sophistication of their reinsurance arrangements, and audit the operation and management of the reinsurance business on a yearly basis. • Insurers must provide to reinsurers information which will affect reinsurance pricing and ceding requirements as well as information which has a material impact on provisioning of reserves and expected claim payments by the reinsurer. In relation to liquidity risks in reinsurance business, the liquidity risk management strategies and measures which insurers are required to develop for the purposes of the solvency and related risk management requirements must include reinsurance liquidity risk. Insurers are required to enhance their cash flow management for reinsurance business (Solvency Regulatory Standard No. 12: Liquidity Risks). In relation to contract certainty, for treaty reinsurance, non-life insurers must agree with the reinsurer on the principal clauses of a reinsurance contract before it becomes effective and sign the formal contract within three months thereafter. For facultative reinsurance, the insurer must complete its reinsurance arrangements before a policy becomes effective (Rules for the Administration of Reinsurance Business of Property and Casualty Insurance Companies). *Supervision* Oversight of the reinsurance arrangements of primary insurers is undertaken by CIRC's supervisory functions, mainly the Property Insurance Department, which has two staff in its Reinsurance Regulation Division. Off-site supervision is undertaken based on analysis of reported information: insurers' regular reporting to CIRC includes changes in reinsurance arrangements, a summary of renewed insurance contracts, related party reinsurance transactions and general statistical information on their reinsurance business. CIRC has required insurers to justify the purpose and accounting treatment of reinsurance contracts which appear not to be transferring risk in practice. As in CIRC's supervision model generally, on-site supervisory work on insurance may be triggered by concerns raised in the off-site process There have been five on-site inspections focused on (non-life) reinsurance in the last two years. Comprehensive inspections will also generally include reinsurance issues amongst many other issues. *Alternative risk transfer* CIRC has clarified (in the Provisions on the Administration of Reinsurance Business) that insurers may use financial instruments to develop new risk transfer products subject to the general requirements to include them in reporting to CIRC. In practice, CIRC has approved a reinsurer to carry out pilot catastrophe bonds which have been issued on a limited scale. Such arrangements are limited in the present

	state of the development Chinese markets.
Assessment	Observed
Comments	CIRC has comprehensive requirements on the reinsurance arrangements of primary insurers, focusing on non-life reinsurance, although the general requirements apply also to life reinsurance. The regulatory approach now relies on risk management requirements, reporting and oversight by CIRC rather than prior approval of individual reinsurance contracts. It is supported by the recently-introduced solvency and related risk management standards (C-ROSS), which address risks in reinsurance, including liquidity risks, and reward the use of reinsurance in areas such as catastrophe risk. The introduction of a register system for reinsurers based on credit standing as well as incentives to manage reinsurance credit risk in the solvency framework should ensure that insurers deal only with high quality reinsurers, including foreign companies. With reinsurance companies, until recently, generally based outside China (and around half of ceded premiums going to foreign companies), CIRC has been able to apply a tailored approach to the supervision of domestic reinsurers, but needs to keep its approach and supervisory resources under review as the number of such companies (which increased in 2016 to three - out of nine reinsurers operating in China in total) continues to increase, as CIRC expects. It is recommended that: • Although facultative reinsurance contracts have to be signed before they become effective, CIRC strengthen requirements on the documentation of reinsurance arrangements to ensure that documentation is signed promptly as far as possible. • CIRC reviews its approach to life reinsurance, recognizing the significant recent growth in use of reinsurance by primary insurers, partly in response to the introduction of the new solvency requirements (C-ROSS).
ICP 14	**Valuation** The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
Description	While CIRC has introduced a fundamentally reformed and improved approach to solvency requirements (C-ROSS – ICP 17), the valuation standards on which they are based are those applying to financial statements, which must be prepared using ASBEs. ASBEs have been based on IFRS since 2006 and since 2009 have included provisions on accounting for insurance liabilities that were based on the then draft version of the (still unfinalized) IFRS4 (Phase 2) (Insurance Contracts) (now renamed IFRS17). CIRC has made some adjustments to ASBEs for the purposes of the solvency requirements. The C-ROSS requirements prescribe an approach to valuation of assets where there is no market price, including investments in subsidiaries (equity basis rather than cost shall be used).

	Insurers are required, for much of the balance sheet, to use valuation bases that reflect and respond to changes in current market prices, where observable. However, there are adjustments to reflect CIRC's objective of avoiding excessive volatility in valuations and to address the lack of observable values (for longer maturity liabilities). There are also simplifications in the case of more complex products to ensure that valuation requirements may be met by all insurers, including smaller companies (i.e., they are not dependent on modelling or other more complex techniques). In particular: • the valuation interest rate to be used in the best estimate valuation of life insurance liabilities is based on a 750 day moving average of the government bond yield; prescribed premiums may be added to the risk-free rate, including a liquidity premium, that vary based on the product type; • in the absence of a reliable government bond yield curve beyond 10 years, insurers are required to use an Ultimate Forward Rate for liabilities over 40 years (4.5 percent at present) and an extrapolation basis is set out for the 10 to 40 years period; and • insurers are required to use a prescribed factor-based approach to the TVOG. The valuation framework does not allow insurers to make adjustments for the insurer's own credit standing. *Life insurers' liabilities* The C-ROSS standards sets out the key valuation provisions. Life insurers must value liabilities as the sum of: • a best estimate valuation, based on all cash flows and using appropriate assumptions; • a risk margin over current estimate (MOCE) based on a scenario comparison approach, using CIRC-prescribed scenarios (a cost of capital approach may also be used); and • an amount for TVOG (Solvency Regulatory Standard No. 3: Valuation of Liabilities of Life Insurance Contracts). Life insurers must include non-guaranteed benefits in their valuation of liabilities (an adjustment may be made in the solvency calculation for their loss-absorbing capacity). There are caps on the valuation interest rate used for premium reserves: for ordinary and universal products, 3.5 percent, and for participating products, the lower of the

pricing interest rate and 3.0 percent. Pricing rates have recently been substantially liberalized, although companies still have to seek CIRC approval for products using a rate above 3.5 percent.

For mortality and longevity assumptions, insurers are required to use a prescribed table, based on industry-wide data, developed by the CAA with oversight from CIRC. The table relates to 2000–2003 data. A new table based on 2010–13 data is under development by the CAA, with support from the International Association of Actuaries (IAA). The table sets the boundary on insurers' use of their own assumptions in calculating best estimates of life insurance liabilities. There is no guidance on the treatment of future improvements in longevity risk, which is relatively limited in China. Lapse and expense assumptions must be based on insurer experience subject to boundaries set by CIRC.

The total value of life insurers' liabilities for the purposes of the solvency requirements is subject to a floor calculated as the total cash value of the life business.

Non-life insurers' liabilities

Non-life insurance companies (including reinsurance companies) are required to establish reserves in accordance with detailed requirements issued by CIRC. Valuation must be carried out according to ASBE standards.

The basis for reserving (set out in the Measures for the Administration of Non-Life Insurance Reserves of Insurance Companies) requires insurers to establish:

- an unearned premium reserve based on methods prescribed by CIRC;
- an incurred and reported claims reserve, using a case estimate or case reserve method or any other method recognized by CIRC; and
- an incurred but not reported reserve (IBNR) that reflects the nature and distribution and experience of the risks covered by each business line, again using CIRC-prescribed methods.

There are specific requirements on insurers to establish reserves for catastrophe risk in agricultural insurance, set by the MoF, taking into account conditions in local markets (insurers must also add to reserves when underwriting profit reaches a certain level). The MoF is preparing similar measures on catastrophe reserves for earthquake insurance and CIRC is developing its own measures for nuclear insurance.

Non-life insurers' reserves are not discounted for the purposes of valuation (most liabilities are in practice of short duration). Liabilities are reported on a gross basis with receivables against reinsurance.

Assets

		Except as otherwise provided, assets must be valued using ASBEs, which follow the IFRS classification (Fair Value, Available for Sale and Hold to Maturity). Hold to Maturity assets account for around one third of aggregate insurance company assets.
Assessment		Largely Observed
Comments		There are comprehensive requirements on valuation for solvency purposes which combine the benefits of alignment to accounting standards with requirements to address the specific needs of insurance business. The framework is supported by governance requirements, including required actuarial opinions (see ICP 8), risk management requirements (the SARMRA process, see ICP 16) and supervisory oversight and enforcement of reserving adequacy (ICP 9). There are also measures, in life insurance, to cap valuation rates. CIRC has supported effective implementation by insurers by extensive consultation and the provision of training. The valuation basis for life insurance is broadly economic, although not fully market consistent. CIRC's objective has been to increase market consistency while avoiding excessive volatility in the valuation and more generally to reflect market conditions and risk management standards in what is not a fully developed financial system. Differences in valuation bases for assets and liabilities, and in particular the treatment of Hold to Maturity investments, mean that the requirements, while comprehensive, are not fully consistent. Simplifications, while appropriate for smaller companies, may lead to inappropriate valuations, including of TVOG. For non-life, the requirements allow for a variety of measures for establishing reserves, but build in elements of conservatism, including disallowance of discounting of liabilities. It is recommended that: • CIRC establish an objective and a plan for improving the consistency of valuation requirements across assets and liabilities and longer term, for moving valuation to a more market consistent basis, while continuing to take into account the characteristics of Chinese markets; • CIRC develop, maybe as part of the plan, elements of the framework where large insurers (for example, Class I under C-ROSS) or those with proven financial controls, to use more sophisticated techniques, such as stochastic valuation of TVOG; and • CIRC, in cooperation with other authorities, complete the implementation of an approach to reserving for catastrophe risks.
ICP 15		**Investment** The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.

Description	CIRC has been reforming its requirements on insurers' investments (referred to as "insurance funds") in recent years with the objective of giving companies increased scope to invest in a range of appropriate assets and to accommodate the continued rapid growth in insurance business. It has also taken into account the potential scope for insurers to contribute further to the growth of the economy by providing funds for longer term investment, in infrastructure development for example. Insurers' investments remain subject to a framework of limits and detailed requirements aimed at ensuring that risks are diversified and well-managed. It has not moved to a fully principles-based approach, although it also has high level requirements on the robustness and security of investments, or to full reliance on the solvency requirements.
	
	Requirements on investments are set out at various levels of the regulatory framework:
	
	• Article 106 of the Insurance Law sets out high level requirements, including principles of security, liquidity and diversification, and restricts the use of insurance funds to:
	  o bank deposits;
	  o traded bonds, stocks, shares of securities investment funds and other negotiable securities;
	  o investments in real estate; and
	  o other uses "prescribed by the State Council."
	
	• The Interim Measures for the Administration of Utilization of Insurance Funds establish further requirements on the use of insurance funds, decision-making mechanisms and risk management; and other requirements are set out in the Interim Measures for the Administration of Insurance Asset Allocation.
	
	• There are specific requirements (mostly in guidance form) related to particular types of investment or operating processes for the use of insurance funds.
	
	• There are also around 40 risk management requirements covering, among other issues, investment capability, related-party transactions, internal controls and information disclosure.
	
	While the overall result is a somewhat complex network of occasionally repetitive rules and guidance, the requirements on insurers, and their objectives, are generally clear.
	
	Insurance asset management companies
	
	Article 107 of the Insurance Law provides for insurers to establish IAMCs subject to CIRC regulation and supervision. These are distinct from other forms of fund management companies in that they must be at least 75 percent owned by insurance companies and focus on the management of insurance funds.
	
	Traditionally, IAMCs provided services only to their insurance group companies.

	However, CIRC has permitted them to provide professional asset management services to third parties, including other insurers. Their scope and regulatory requirements are set out in CIRC's Interim Provisions on the Administration of Insurance Asset Management Companies. The majority of insurance funds are now managed by such companies, although insurers may still choose to manage funds within in-house asset management departments. *Investment limits and restrictions* The CIRC Notice on Enhancing the Supervision of the Investment Ratios of Insurance Funds sets out limits on the proportion of investments in the major permitted assets classes: equity (30 percent), real estate, excluding own-use property (30 percent), other financial assets (25 percent), and overseas investments (15 percent). In respect to real estate, investment in own-use physical property may not exceed 50 percent of net assets. The Notice also sets out, as "risk monitoring thresholds" liquidity limits: no less than 5 percent of assets being liquid for life insurers and 7 percent for non-life. (Liquid assets are defined as cash on hand and deposits that are readily available for payment, as well as short-term, highly liquid assets that are readily convertible into cash). In relation to each asset class, there are requirements, for example, that deposits are made only at banks which meet regulatory and minimum credit rating requirements; minimum ratings for corporate bonds, the types of equity investment, qualifying conditions for securities investment funds, including requirements on the fund managers who are eligible to sponsor equity or venture capital funds in which insurers may invest; requirements on real estate investment (including a ban on investment in development property). There are requirements on investments in overseas assets, which is limited to larger companies. Many of the requirements (Interim Measures for the Administration of Overseas Investment with Insurance Funds) address the conditions under which insurers shall use trustees and custodians. There are also concentration ratio thresholds and limits: • investments in single fixed income assets, equity assets, real estate assets and other financial assets: 5 percent of total assets; • investments in venture capital funds: 2 percent of total assets; and • investments in a single fund: 20 percent of the fund's offering size. There are also a large number of risk monitoring thresholds: not limits but triggers for CIRC to investigate further. For example, insurers with a proportion of stock investments exceeding 20 percent of total investment are a focus of CIRC

	monitoring. Insurers may not make or acquire loans as part of their investment portfolios (CIRC is open to allowing such investment, but takes account of the views from PBC and CBRC). They may not use derivatives to take on investment risk, but may use simpler forms of derivatives to hedge risks arising on permitted investments. *Requirements on capacity, etc.* Insurers are also subject to a general requirement to allocate assets with appropriate risk/return features, maturities and liquidity characteristics and to requirements on preventing insurance product pricing and asset mismatching risks. Insurers are required to have appropriate investment management capabilities in order to invest in stocks, unsecured bonds, equity and real estate, to innovate in infrastructure and real estate investment programs, and to utilize derivatives (Notice on Building the Investment Management Capacity of Insurance Institutions). There are requirements to put in place appropriate custody arrangements for equity holdings. *Higher risk investments* Higher risk categories of investment are subject to the overall limits summarized above according to the relevant class (which is equity for most higher risk investments) and in addition to specific requirements on particular asset classes. For example, CIRC has issued guidance on investment in infrastructure by insurers (requiring, for example, that such investment be made only via investment vehicles and not directly). In line with its general approach, CIRC permits insurers to invest in infrastructure and other alternative investments only if the insurer has specific expertise. The reporting requirements to which insurers are subject have been designed to ensure that CIC can identify and respond to increased investment in higher risk investments by individual insurers. As generally, its approach, in case of a supervisory concern, would be to undertake on-site inspection work to evaluate whether the insurer is in compliance with its requirements.
Assessment	Largely Observed
Comments	CIRC has been significantly liberalizing the requirements on investment of insurance funds and insurers are responding by diversifying from bank deposits and bonds into property, alternative and overseas investments. Across the sector, potentially higher risk investments remain limited (7 percent in alternative investments, broadly defined, and just over 2 percent overseas), although some individual insurers have more aggressive investment strategies and they have been attracting increased CIRC supervisory focus. CIRC has recently moved to tighten investment restrictions in relation to stock market activity by some insurers that has included building controlling interests. CIRC is seeking to balance the benefits of diversification of

	insurance funds with the need for continuing restrictions, of which there remain many, while expertise in fund management and risk assessment is developing. It is working with insurers and the trade associations in this regard, while also developing the expertise of its own Investment Department. Given the rapid growth of the market, and pressure to accommodate increased use of insurance funds in activities that will support economic growth objectives, CIRC needs to remain vigilant. It is recommended that CIRC review its approach, including the balance between regulatory limits and supervisory activity, to higher risk investments including equities, taking account of the 30 percent limit on equity investments that is high for many forms of insurance business and the recent experience with stock market activity of some insurers.
ICP 16	**Enterprise Risk Management for Solvency Purposes** The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
Description	There are extensive requirements for risk management as part of the China-Risk-Oriented Solvency Standards (C-ROSS—see ICP 17), in particular those which underlie the SARMRA process. The requirements form the basis for an annual assessment by CIRC of the insurer's Solvency-Aligned Risk Management (SARM), including on-site evaluation of the adequacy of risk management in practice. *Risk management requirements* The basic requirements under SARMRA are that insurers establish sound organizational structures, management systems, risk evaluation mechanisms and a risk appetite system. SARMRA also covers the management of insurance, market, credit, operational, strategic, reputation, liquidity and other risks. Conceptually, the SARMRA requirements set out the controls insurers need to manage the inherent risks identified in the C-ROSS (Standard 11: Solvency Risk Management Requirements and Assessment Framework). The requirements apply to all insurers, including reinsurers, foreign-funded insurers and branches of insurers regulated in jurisdictions outside Mainland China. However, for the purposes of the application of the requirements, CIRC classifies insurers into: • Class I companies, where the company has been established for more than five years and, if a non-life company, has written premiums of more than RMB 5 billion or total assets of more than RMB 20 billion and, if a life company, has written premiums of more than RMB 20 billion or total assets of more than RMB 30 billion, in the most recent financial year; or where the company has more than 15 provincial branches. • Class II companies: branches of foreign insurance companies and any insurer not meeting the Class I criteria.

	CIRC may reclassify an insurance company, where it considers necessary. At the time of the assessment, there were 62 Class I companies and 100 Class II. Class I companies accounted for the bulk of total written premium and total assets. The Class I/Class II distinction does not affect supervisory intensity or resource allocation within CIRC—which is driven by the IRR and other considerations (see ICP 17). Higher expectations of risk and capital management are being placed on Class I companies, although at present the principal additional requirement is that they use multiple capital management tools (an economic capital model in line with C-ROSS principles, for example) appropriate to their business model and risk profile. CIRC also places higher expectations on Class I insurers' risk governance, especially the organization and staffing of the risk management department (see ICP 8) and the role of the Chief Risk Officer. Class II companies must also carry out adequate capital management, but may use their own choice of approaches. All insurers must prepare a three-year rolling capital plan every year reflecting its development strategy and submit it to CIRC. There are no explicit requirements in the C-ROSS on documentation of risk measurement systems and approaches, but the adequacy of documentation would be covered in on-site examinations. Insurers are also required to improve ALM mechanisms and establish a review system for major ALM matters. Explicit requirements to manage ALM risks are set out in the Interim Measures for the Administration of Utilization of Insurance Funds (Article 43), as are requirements on management of investments, including requirements on the management of more complex and hard-to-value investments (investment through a trustee, unsecured bonds, stocks, equities, and real estate), which must be considered and decided on by the Board of Directors (Article 29). There are full requirements on underwriting risk (C-ROSS Standard 11: Solvency Risk Management Requirements and Assessment Framework, Articles 41 to 51). The framework does not explicitly capture group risks (ICP 16.1.18), where the legal entity is part of a group or in respect of entities outside the scope of the group for the purposes of groupwide supervision. There are requirements on IGT and transactions with related parties, including disclosure requirements, but insurers are not explicitly required to capture group risk and group risk management in SARMRA. Under SARMRA, insurers must: • define a risk appetite based on its strategies and risks and use quantitative and qualitative approaches to determine its tolerance and limits for the different risks; • incorporate the risk appetite system in its decision-making process; • create a mechanism for addressing risks that breach limits and monitor and

	report the enforcement of risk tolerance and risk limits in a timely manner; and • evaluate and (if necessary) update the risk appetite system annually. There are no explicit requirements in C-ROSS that the ERM approach be responsive to changes in risk profile, but this is the effect of the overall requirements in practice. *ORSA requirements* Under C-ROSS, insurers must carry out a self-assessment of their operational, strategic, reputation and liquidity risks each quarter, and of their risk management at least annually against each requirement in SARMRA. They must include the results and actions which they propose to take in a quarterly report to CIRC, which must be approved by the Board of Directors and the senior management. As mentioned, they must set up a capital management system and prepare a three-year rolling capital plan every year. However, there is no requirement at this stage for insurers to prepare an ORSA as described in the ICP—a comprehensive assessment by the insurer itself, independent of the regulatory framework, of its risks and the level of solvency which the insurer considers it should hold taking account of these risks. Class I insurers are required to develop relatively advanced capital management approaches, which may include an economic capital model. These are not as yet well-developed in practice and CIRC is not reviewing them as an input into the SARMRA framework.
Assessment	Partly Observed
Comments	CIRC has introduced, through the SARMRA framework, an extensive set of risk management requirements, which have already had a significant positive impact on insurer practices. Its integration into the supervisory process and its direct link to overall solvency requirements (see ICP 17) makes SARMRA likely to become an effective framework for delivering strong Enterprise-Wide Risk Management. The framework is still new and not fully implemented at CIRC or in the processes of insurers. In relation to the ICP expectations, it lacks a full ORSA requirement (under which insurers would be required to develop their own view, in an integrated manner, of both risk and solvency requirements, which the supervisor can use as an input into its solvency adequacy assessment), even if many of the elements of ORSA are present in the SARMRA framework. While it may be too early for CIRC to require ORSAs at present given the state of development of insurance sector risk management, experience in other countries suggests that an ORSA process can be useful in requiring companies to look at risk and solvency together. Furthermore, by not including explicit requirements on group risk, the SARMRA does not cover all the risks within the scope of the ICP. It is recommended that:

	• CIRC develop an approach to the inclusion of group risks explicitly in the SARMRA framework; • CIRC should extend the SARMRA framework in due course to require insurers to develop ORSAs: these would ideally be prepared as integrated documents setting out the insurer's own view of risk and the related solvency needs; they should be agreed by the Board and submitted to CIRC as required as an input into the SAMRA assessment; and • CIRC should consider, after the completion of the first year of SARMRA assessments, how to make the process more risk-based, for example moving to regularly more frequent assessments of Class I or larger insurers and less frequent reviews of smaller companies, at least those with strong SARMRA performance.
ICP 17	**Capital Adequacy** The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.
Description	CIRC has introduced a new solvency framework, with effect from January 1, 2016. China-Risk-Oriented Solvency Standards (C-ROSS) comprise 17 standards addressing valuation for solvency purposes (see ICP 14), a three-pillar approach to solvency requirements and the application of the standards to groups. The approach was developed relatively fast—work began only in 2012. The concept and detailed requirements draw on international standards, especially the EU Solvency II requirements, but reflect CIRC'S design objectives and Chinese market experience. It does not include an internal modelling approach or any other provision for insurers' use of their own methodologies. A number of rounds of quantitative testing were undertaken to develop the detailed requirements based on a calibration target of 99.5 percent over one year (the same as EU Solvency II). CIRC has also said that it wanted to provide for a level of solvency requirements that would not restrict the growth in the insurance sector, a key policy objective of the Chinese government. CIRC worked with insurers, the insurance association and technical experts from actuarial, accounting and auditing firms and professional bodies. Parallel running of the previous system and C-ROSS was undertaken in 2015. C-ROSS comprises principally: • Pillar 1 solvency requirements for insurance, market and credit risks only (a countercyclical requirement and add-ons for systemically important insurers will be added in due course): o prescribed factors are applied to exposures or, for some risks, scenarios are used to deliver minimum capital requirements, which allow for diversification at different levels, including between risks (and deduction of loss absorption capacity for relevant life insurers);

	- available capital is defined: equity as well as preference shares up to 30 percent of the total are eligible as core capital, while supplementary capital includes subordinated loans (limited to 25 percent of the total where under 5 years); and - minimum solvency ratios of 100 percent (comprehensive ratio) and 50 percent (core ratio) must be met at all times. • A Pillar 2 approach divided into: - A process for evaluating the extent of an insurer's (inherent) risks not captured in the Pillar 1 framework (the four "unquantifiable risks"): operational, strategic, reputation and liquidity risks: CIRC collects data from insurers on over 100 indicators and uses this information and supervisory judgment to classify these risks as (in total) very high, high, low or very low. The combination of the solvency ratio number and the assessed level of unquantifiable risks, with the application of weightings, drives an IRR (A to D), which is assessed quarterly and communicated to insurers. (IRR ratings also drive supervisory responses—see ICP 9). - A process for evaluating the control risks of insurers (Solvency-Aligned Risk Management Requirements and Assessment—SARMRA): again, insurers must supply detailed information, and CIRC in this case also carries out extensive onsite evaluation: under the framework it looks separately at nine areas—foundation and environment (risk management policies), objectives and tools of risk management and the individual risks (insurance, market, credit, operational, strategic, reputation and liquidity). The SARMRA results are aggregated, on a weighted basis, to inform an adjustment to the Pillar 1 minimum solvency requirement, bounded by a maximum increase of 40 percent and a low level of minus 10 percent (i.e., the Pillar 1 minimum requirement may be reduced by this amount). • Pillar 3 disclosure requirements to support effective market discipline: insurers must disclose on a quarterly basis their solvency ratio (adjusted by the SARMRA process) and their IRR rating (the letter A to D) as well as highlights of a quarterly solvency report that must be submitted to CIRC. They must also disclose their IRR in their documentation given to policyholders. The framework is in the process of implementation. Pillar 1 requirements apply in full and IRRs are being assigned and disclosed, but the first round of the SARMRA process will not complete at the time of this assessment (it will be completed by end of 2016 and onsite evaluations have been taking place during the year). The impact of C-ROSS has varied significantly by business line and risk (the previous system was volume- rather than risk-based), although the overall impact at company level has apparently not been great. All insurers meet the current minimum Pillar 1 requirements (not including the SARMRA adjustment). In discussions with industry participants, it was observed that C-ROSS is having a significant impact on the comprehensiveness of risk management, is already rewarding good risk management and is expected to do so more in the future.

	The approach applies on a group basis as well as at the level of individual insurers. C-ROSS Solvency Standard 17 sets out in detail how the approach applies to all types of insurance group, including where there is a bank or other non-insurance component in the group. C-ROSS requirements are to be applied to the group, based on the groupwide accounting measure of available capital and an aggregation approach to minimum capital requirements. C-ROSS also applies to insurance companies established in Mainland China as one or more branches (of an entity regulated under different standards at the parent level) in respect to their business in China. The establishment of branches is restricted to reinsurers generally and one life insurance company incorporated in Hong Kong SAR. In relation to solvency control levels (ICP 17.3), CIRC view the minimum solvency requirements as an MCR (minimum capital requirement) in terms of the ICP requirement. CIRC would take strong action in case of an insurer failing to meet the minimum solvency requirement—although it would not at this stage move immediately to impose receivership (it would issue regulatory letters first—see ICP 10) and the Insurance Law provides simply that it may do so where the insurer is "seriously" below its solvency requirement. CIRC is still deliberating at which point it would intervene above the minimum. Under the previous system (i.e., prior to January 1, 2016), CIRC regarded 150 percent of the minimum as the trigger for intervention. Some market participants noted in discussion with the assessors that while there are actions associated with IRR ratings, it was unclear what the CIRC's appetite is for insurers to maintain ratios close to the minimum. As noted under ICP 14 (Valuation), CIRC undertook extensive preparatory work with the insurance companies to support readiness for the implementation of C-ROSS, including training programs. In addition to C-ROSS, CIRC's Measures on the Administration of Insurance Companies set a minimum capital requirement of RMB 200 million. Additional RMB 20 million of capital is required for every new branch (at the province level), with the total minimum required capital capped at RMB 500 million.
Assessment	Largely Observed
Comments	The new C-ROSS solvency framework is a major step towards a risk-based approach. The combination of Pillar 1 with a Pillar 2 qualitative and quantitative framework, including additional solvency requirements for individual insurers under the SARMRA process, goes beyond the approach of many other countries in linking solvency requirements to the overall supervisory approach. It is likely to incentivize sound risk and capital management. The framework has been carefully designed to be applicable to all insurers. While it excludes an internal model approach (and full ORSA framework—see

	ICP 16), the framework relies on extensive CIRC interventions and is resource-intensive for it to manage. There is also a risk at this early stage that elements of the approach are not embedded by insurers or understood by those using the output. The IRR ratings in particular may be hard to evaluate. In relation to ICP expectations, the framework is not comprehensive: operational risks are excluded from Pillar 1 requirements, even where quantifiable, although there are data constraints in China. The relatively high requirements on credit risk for offshore reinsurers (where not collateralized), regardless of credit rating, raise concerns that aspects of the framework may not be fully risk-based. The requirements for equity risk appear low. While CIRC policy and practice is clearly to enforce the requirements fully, it will be helpful to clarify its approach to solvency control levels and to ensure the insurance sector is aware of its approach. It is recommended that CIRC: • review its approach to intervention in terms of the ICP framework providing for two solvency control levels (PCR and MCR), establish levels for intervention and publish its approach (see also ICP 12); and • review the treatment in the solvency requirements of credit risk on offshore reinsurers and equity risk (in the light if market volatility in recent years).
ICP 18	**Intermediaries** The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.
Description	Insurance sales channels in China comprise insurance agents, insurance brokers, bancassurance, direct sales (by insurers), and emerging channels such as the internet. The direct channel has broadened in recent years to include telemarketing and e-commerce platforms. Bancassurance is another channel experiencing growth. The CIRC's 12th five-year plan specifically mentions an intention to increase regulation on sales from telephone, internet and other newly created sales channels in order to prevent poor market behavior. By 2015, there were 2,503 specialized insurance intermediaries operating in China (composed of 6 intermediary (group) companies, 1,719 full-time insurance agencies, 445 brokers, over 210,000 distribution outlets from part-time agencies (most notably banks and post offices), and about 6 million sales agents. In 2015, insurance intermediaries recorded close to RMB 2 trillion in premium income, representing 81 percent of the national total. Specifically, specialized intermediaries contributed RMB 171 billion (7 percent), part-time insurance agencies RMB 879.7 billion (36 percent), and insurance marketing channels RMB 925.1 billion (38 percent). The Insurance Law was amended for a fourth time on 24 April 2015 to abolish the requirement for direct sales personnel, agents and the employees of agencies and insurance brokers to meet statutory qualification requirements. Instead, all insurance sales people should be of good character and have the professional competence required for their roles.

	The main distribution channel for large commercial accounts is still direct sales between insurance branch staff and clients. Agents and appointed representatives, including car dealers and travel agents, produce much of the personal lines account. The broker and professional agency sectors have shown rapid growth over the last few years but are now being restrained by CIRC while it tries to raise ethical standards. The internet is the fastest growing distribution channel for non-life insurers and one that it is officially encouraged by the State Council and CIRC. In 2015 CIRC published the Interim Supervisory Measures on Internet Insurance Business. The measures will be in effect for three years and have replaced the Supervisory Measure on the Internet Insurance Business of Insurance Agents and Brokers. Agents and brokers must be licensed and meet a number of supervisory requirements. They are subject to onsite inspection and continuous monitoring. They must have professional liability insurance. They must produce financial statements that are reviewed by CIRC. Their officers and directors are subject to suitability requirements. They must meet corporate governance capital, technical and accounting requirements among others. They are subject to corrective or preventive measures and sanctioning by the CIRC. The governing regulations for insurance agencies were re-issued from 19 October 2015 under the title of Provisions for the Supervision and Administration of Professional Insurance Agencies. Regional CIRC Bureaus of CIRC have also made certain explorations regarding the corporate governance of insurance intermediaries. For instance, Guangdong CIRC Bureau promulgated *Standards on Corporate Governance of Full-Time Insurance Agencies in Guangdong (For Trial Implementation)*, *Standards on Corporate Governance of Insurance Brokerage Institutions in Guangdong (For Trial Implementation)*, and *Standards on Corporate Governance of Insurance Assessment Institutions in Guangdong (For Trial Implementation)*. The main provisions of the regulations are: • Insurance agencies must be constituted as joint stock or limited liability companies and must be authorized by the CIRC. Shareholders must have no record of serious legal violations for the previous three years, while directors and senior managers must meet qualification standards laid down by the CIRC. • Agencies are licensed on a province-by-province basis and a provincial branch may not conduct business outside its province of authorization. The minimum capital requirement for a newly-established agency is RMB 50 million. • The business scope of an insurance agency is limited to the sale of insurance, the collection of premiums and the settlement of claims. An agency must establish a separate account for client premium/moneys. • Professional indemnity insurance is required with a minimum indemnity limit of RMB 1 million for each claim. The aggregate limit must be twice the agency's

	annual business income in the previous year, subject to a minimum of RMB 5 million and a maximum of RMB 50 million. Alternatively, a cash guarantee equivalent to 5 percent of the agency's capital may be deposited in a bank. • An agency may represent maximum up to three insurance companies. • Agency employees must have a minimum of 80 hours training before they may start selling. CIRC has a system of laws and regulations governing the supervision of intermediaries, and uses an integrated supervisory approach that combines off-site checks with on-site inspections. In regard to off-site checks, aside from requiring insurers and intermediaries to periodically submit data and statements, CIRC and regional Insurance Bureaus have developed a system for collecting regulatory data and information on intermediaries from a wide range of channels. In regard to on-site inspections, CIRC and regional Insurance Bureaus carry out targeted inspections on intermediaries in view of nationwide market developments and local particularities. In regard to off-site checks, the Insurance Intermediary Regulatory Department carries out OSSRM on insurance intermediaries and consolidates the data generated from the regulatory activities of other departments to determine the overall risk of intermediaries. In cases where an insurance agent breaches the contract with the insurance agency causing damage to the rights of an insured person, the insurer is liable for damages for the actions of the agent. There are no requirements for agents to disclose commissions or potential conflicts of interest. Bancassurance in China is generally perceived to offer lower margin business. Bank employees selling insurance must be qualified as agents but may not be directly remunerated by insurers for making policy sales. Almost all insurance companies have agency agreements with the branches of one or more banks or other financial institutions such as the post office. In a clamp-down on bancassurance in November 2010, insurance companies are prohibited from stationing their own sales representatives in bank branches, while each bank branch is limited to selling a maximum of three insurers' products. Some banks offer mortgage and insurance packages to homebuyers, although bancassurance writes 40 percent of total life insurance premium but it is far less significant for the non-life. The ultimate responsibility for the quality of the sales process is with the insurance company. Any miss-selling or breach of regulation by intermediaries is addressed against the insurer.
Assessment	Largely Observed

Comments	Against the background of an increasingly competitive market, with rebating and inducements for policyholders, the incidence of insurance misrepresentation is increasing. The abolition of statutory qualification requirements for insurance agents with effect from 2015 has led to an explosion in the number of people engaged in the business, particularly in life agency. Insurance distribution is not simply about pushing product to achieve specific growth rate. Policyholders' needs have to be understood and assessed, options identified and appropriate advice given on which insurance companies and products to select. For insurance companies, it is in distribution that relationships and trust are built with agents, brokers, and customers, opportunities identified and created, and products and services sold. Although CIRC has a database, there is a room for improvement to have more efficient computer system, for example with automated computer runs to check on compliance with each of main requirements (the list of non-compliant firms could not be produced upon request). It is recommended that CIRC: • review the level of resources that it currently applies to market conduct and intermediaries in the light of the increasingly competitive market; and • consider establishing stronger requirements on agents to disclose commissions and potential conflicts of interest.
ICP 19	**Conduct of Business** The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
Description	CIRC's supervisory objectives encompass conduct of business (one of the objectives of supervision is to protect policyholders and the beneficiaries of insurance services). But reinsurers are in practice not subject to requirements on the treatment of policyholders *(Insurance Law, Chapter VII)*. Insurance intermediaries are licensed and supervised by the CIRC (see ICP 18) under the Insurance Law and CIRC has made good progress in ensuring timely, simple, convenient, fast and transparent claims settlement service through implementation of *Guidance on Insurance Claims Settlement*. Articles 16 and 17 of Insurance Law set out requirements on disclosure to policyholders. Policyholders must be given a product information document. They can withdraw their application for an insurance contract within a specified time after the conclusion of the contract. Insurance companies are required to supply purchasers with clear procedures for the handling of complaints and disputes. If purchasers are unable to resolve their complaints, they may refer the matter to CIRC. Insurance complaints may also be referred to arbitration, or as a last resort, to the court system. Few complaints go to the courts. The insurer must give advice to the customer on an ongoing basis.

	Guidance for Small-Sum Insurance Claims Settlement Service (For Trial Implementation) selects auto and health insurance, which consumers pay closest attention, as breakthrough to improve claims handling service. It provides that insurance companies shall establish the system for receiving claims reports on a 24/7/365 basis and remind consumers to report claims through multiple channels, such as the central hotline, business outlets and official website. Insurance companies shall gradually digitalize their claims procedure so that consumers can file claims at home. For motor insurance, insurers shall minimize claims documentation. For instance, original copy of insurance policy, receipt, vehicle repair invoice and accident proof are no longer necessary. Insurance companies shall leave traces during the whole claims procedure, inform the claimant of critical information, and provide sound inquiry channels. They shall also embrace financial innovation. Artificial Intelligence and automation allow insurers to cut down on claims processing times significantly and realize cost savings. Tasks that once took months to finish are now accurately completed in a matter of minutes, which improve customer engagement. CIRC has also issued regulation to facilitate the claims settlement process. The insurer shall lay out its claim settlement processes and services, define time limits for claim settlement, establish complaint and supervisory mechanism on claim settlement services and improve quality of claim settlement services effectively. Insurance company staff handling complaints do not have to be independent from the operational area responsible for the complaint issue (i.e., no requirement for an internal ombudsman). Insurer procedures are required to state which positions in the company handle complaints and there must be systems to track insurer complaints. CIRC reviews sales procedures and examines sales documents as well as reviewing complaint handling procedures as part of its ongoing supervisory process. Conduct requirements for insurance companies, intermediaries are set out in the Insurance Law and other laws and regulations and promulgated provisions and normative documents including Provisions on the Administration of Insurance Companies, Provisions on the Supervision and Administration of Full-Time Insurance Agencies, Opinions of CIRC on Strengthening the Protection of the Rights and Interests of Insurance Consumers, and Measures for the Supervision and Administration of Insurance Sales Personnel, Measures for the Supervision and Administration of Insurance Brokerage Personnel and Loss Adjustment Personnel, Interim Measures for the Administration of Underwriting and Claims Settlement for Agricultural Insurance, Basic Service Standards for Full-Time Insurance Agencies, Basic Service Standards for Insurance Brokerage Institutions and Basic Service Standards for Insurance Assessment Institutions. In 2012, CIRC and the Supreme People's Court jointly issued the Notice on Launching the Pilot Program of Establishing a Mechanism for Linking Insurance Dispute Litigation with Mediation in Certain Regions of China, and in 2016, the Opinions on Promoting the Nationwide Establishment of Mechanism for Linking Insurance Dispute Litigation with Mediation, with a view to enhancing the mediation of insurance disputes and linking litigation with mediation. By the end of 2015, there

	were 379 insurance dispute mediation organizations who mediated over a cumulative of 80,000 cases. Currently, 163 cities with districts have created the mechanism to link litigation with mediation, and 39,000 litigation cases have been mediated under the mechanism. CIRC has also issued regulations to facilitate the claims settlement process. The insurer shall lay out its claim settlement processes and services, define time limits for claim settlement, establish complaint and supervisory mechanisms on claim settlement services and improve quality of claim settlement services effectively. One of CIRC's mission is to handle consumer complaints. A dedicated unit within CIRC head office, the Insurance Consumer Interests Protection Bureau, together with offices in CIRC local branches, manages and handles complaints submitted by consumers. CIRC is responsible for investigating complaints which involve violating the law or regulations. Insurance companies are responsible for complaints that are only civil disputes between consumers and companies. If not satisfied with the company's decision, the complainant can seek arbitration or file a law suit. A complaints mediation function also exists with the IAC. CIRC head office had imposed 29 administrative penalties in 2016, 22 in 2015, 9 in 2014, and 17 in 2013. In last three years, there has been no case of severe fine or other severe penalties imposed on insurers or intermediaries due to gross misconduct.
Assessment	Largely Observed
Comments	The CIRC is continuously regulating the distribution network to encourage innovation, motivate lower premiums, better service and more responsive insurance products while restructuring/redesigning the new solvency regime. These two tasks require a well-planned/design a road map, highly technical staff and adequate resources. The insurance dispute settlement mechanism has played an important role in timely resolving of conflicts and disputes, reducing the cost to consumers of defending their rights, protecting the lawful rights and interests of parties in dispute, enhancing the quality of insurance services, and improving the public image of the industry and promoting its sound development. CIRC has made some good rules about the problems such as exaggerating the insurance liability or the returns from insurance products; guaranteeing returns on insurance products with volatile performance; selling insurance products as savings deposits or wealth management products; or engaging in dishonest sales such as by withholding information on exclusions, client rights during the cooling-off period, loss from surrenders, important insurance clauses such as fees and charges in universal insurance or investment-linked insurance, and disclosure of important insurance information. While there are many good requirements in the law, additional provisions are necessary to ensure products sold to purchasers are appropriate to their needs, that any potential conflict of interest are disclosed, and that public information is available to support consumer decisions and the fair treatment of consumers.

	It is recommended that CIRC consider developing a five year road map for the distribution network and market conduct focusing on: (a) clear and simple guidance on the needs of the policyholder and advice during selling life and non-life products which takes into account the interests of the policyholders;); (b) a standard claims management system to be able to handle claims in a timely and fair manner; and (c) on-going advice to the policyholders.
ICP 20	**Public Disclosure** The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.
Description	CIRC requires insurers to publish a range of disclosures about the business, financial position, governance and other aspects of the company. As it implements its new solvency requirements (C-ROSS—see ICP 17), it is extending these requirements with additional disclosure requirements specific to solvency. *Core disclosure requirements* Insurers (excluding in this case reinsurance companies) are required to publish a disclosure report on their websites, in a CIRC-designated newspaper and the website of the IAC by April 30 each year. The report must cover the insurer's profile, corporate governance and control, financial status, technical performance and quantitative and qualitative information on risks. Reports for the previous five years have to be kept on the website (Measures for the Administration of the Information Disclosure by Insurance Companies). There are no explicit requirements to make the same information available directly to policyholders, for example at the premises of insurers. Insurers must as far as possible use plain and understandable language and respect the principles of authenticity, accuracy, integrity, timeliness and effectiveness. Financial information included in the annual disclosure report must be consistent with that presented in annual financial statements and must include specific items: • the balance sheet, income statement, cash flow statement, and statement on ownership interest changes; • notes to financial statements, including the preparation basis for financial statements, explanation of major accounting policies, off-balance-sheet business, explanation of significant reinsurance arrangements; and • audit opinions in the audit report, including a qualified opinion, disclaimer of opinion or adverse opinion and the insurer's explanation in response.

	Some information has to be disclosed by insurers on technical provisions, although it is limited to the high level information disclosable in the notes to annual financial statements. CIRC is currently considering how to extend these requirements. The annual disclosure statement must also include information on capital adequacy, including available capital and minimum capital, capital surplus, status of solvency adequacy; and changes to solvency adequacy compared with the previous year. C-ROSS requirements are extending these requirements (see below). There are limited specific disclosures on investments and insurers in practice disclose the information in annual financial statements in the format required under accounting standards. As these are based closely on IFRS and apply to all insurers, disclosures follow IAS 39 requirements. Risk management information has to be disclosed consistent with the annual risk assessment report to be agreed by the Board of Directors, including the identification and evaluation of major risks and key risk controls. There are limited requirements in relation to disclosure of ERM frameworks, although insurers must disclose information on their risk control, including a brief introduction to the risk management organization system, overall risk management strategies, and the implementation of such strategies (paragraph 11 of Measures for the Administration of the Information Disclosure by Insurance Companies). Disclosure requirements on performance also follow the accounting standards. There is limited publication therefore of claims statistics, pricing adequacy. The requirements on corporate governance disclosures specify disclosure of such basic information as resumes of directors, senior management etc. and information on the organizational structure of the company. Similarly, there are limited disclosure requirements on the nature of the insurer's business and the external environment in which it operates. CIRC has carried out supervision work to ensure that insurers are complying with the core disclosure requirements in practice and has taken action when it has found failure to comply or failure to publish disclosure reports on time. *Groups* The disclosure report requirements apply to individual legal insurers and not at the group level. The Measures for the Administration of Insurance Groups (Chapter VI) include disclosure requirements for insurance group holding companies, but these are limited to basic factual information and changes in management, controllers etc. There are plans to extend the disclosure requirements applying to groups in due course. Many of the insurance groups are listed on one or more stock exchange such that group consolidated information is available to meet the disclosure requirements for listed companies. *Pillar 3 solvency information*

	C-ROSS implementation is leading to improved disclosure of solvency-related information, although implementation is at an early stage. Under the C-ROSS standards, insurers must disclose each quarter a summary of the solvency report provided to CIRC for that quarter (see ICP 17). Disclosures must be posted on the insurer's website and made available on the IAC website. The summary must include the amounts of recognized assets, recognized liabilities and available capital, minimum capital, the core and supplementary solvency adequacy ratios (Article 7 and Article 8 of Solvency Regulatory Standard No. 13: Public Disclosure of Solvency Information). Insurers are also required to disclose their IRR, risk management status and liquidity risks on a quarterly basis, major risk points (if the result of IRR is C or D—see ICP 9) and their score under the SARMRA system (see ICP 16) and measures they are taking to improve their score. Some information, including the IRR, has to be disclosed in documentation made available to policyholders. CIRC has been checking that reports have been published as required (three quarterly reports had been due at the time of the assessment).
Assessment	Largely Observed
Comments	CIRC sets out detailed disclosure requirements of its own, rather than relying on the publication of audited financial statements, although in practice the information to be disclosed is closely aligned and many disclosures are driven by accounting standards. There is not complete coverage of the ICP requirements as disclosures at the insurance group level (and for reinsurers) are limited. Some disclosure requirements, such as technical provisions, claims, corporate governance and ERM are relatively limited. The implementation of C-ROSS is greatly improving the disclosure of information on solvency, including the key outputs of the CIRC's Pillar 2 process (see ICPs 16 and 17). The full impact and effectiveness of these disclosures is yet to be felt and there may be challenges in understanding the basis of the IRR and SARMRA ratings in the early days. However, initial indications are that disclosures are being closely watched, including by brokers and agents. It is recommended that CIRC: • review and update the core requirements on disclosure to reflect the full range of ICP requirements, as appropriate in the context of the Chinese insurance market, including in relation to technical provisions and claims, and complete their planned work to align them with C-ROSS required disclosures; • extend the disclosure requirements applying to reinsurers and insurance groups; and

	• continue to give guidance (and require insurers to do so) on the interpretation of the new disclosures under Pillar 3 of the C-ROSS framework to maximize their usefulness to stakeholders.
ICP 21	**Countering Fraud in Insurance** The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.
Description	Articles 198, 224, and 225 of the *Criminal Law* have prescribed the crime of insurance fraud, the crime of contract fraud and the crime of illegal business operations, which fraudulent insurance activities may constitute, as well as corresponding criminal penalties. Article 277 prescribes the criminal penalties on the use of violence or threat to obstruct state personnel from discharging their duties by law. CIRC's regulations address fraud in a comprehensive manner. In 2016, IAC established a professional committee against insurance fraud and a joint conference system for the prevention of fraudulent claims (*Notice on Printing and Distributing the Minutes of Working Conference of Insurance Association of China on the Preparation of Professional Committee for the Prevention of Insurance Fraud and Conference Documents of Professional Committee for the Prevention of Insurance Fraud)*. CIRC has established a regular coordination mechanism with public security authorities and jointly promulgated with the Ministry of Public Security the Notice on Enhancing Coordination in Jointly Cracking down on Illegal and Criminal Activities in Insurance Sector. In 2015, CIRC, working together with Ministry of Public Security, carried out an anti-fraud campaign in 15 places including Shanghai and Jiangsu. The CIRC carries out continuous inspections on the prevention of insurance fraud and targeted inspections on the prevention of fraud, and reviews the effectiveness of measures taken by insurers, intermediaries and supervisory authorities themselves to stop, prevent, identify, report and correct fraudulent activities. For example: *Plan for the Targeted Inspection on the Prevention of Insurance Fraud in 2016* and *Report on the Progress of Targeted Inspection on the Prevention of Fraud in 2016*. CIRC has launched many rounds of special campaigns for the crackdown upon insurance fraud, including the Peace Campaign. Examples include the *Action Plan* and *Summary Report* of Peace Campaign, 2015 and communication of campaign summary report and inspection results. CIRC also carry out joint supervision with serious and complicated circumstances in coordination with the Economic Crime Investigation Bureau of the Ministry of Public Security. By using big data, CIRC Hunan Bureau found that the policies sold by insurance sales agents who participated in illegal fundraising activities usually had a high surrender value within or beyond hesitation period, high lapse ratio, low renewal ratio and low success ratio of post sales call. These types of agents often bought

	policies themselves or from other agents. They usually did not show up in insurance companies. Based on these findings, CIRC Hunan built an early warning system. CIRC has established a mechanism of antifraud cooperation among Mainland China, Hong Kong SAR, Macao SAR, and Taiwan: CIRC entered into agreements for regulatory cooperation for the prevention of fraud between Mainland China and Hong Kong SAR and Macao SAR, guided IAC in implementing the *Memorandum of Understanding for Cross-Straits Cooperation on the Joint Prevention of Insurance Fraud*, and established the mechanisms of cross-straits cooperation on the mutual enquiry and investigation of fraudulent insurance information. For instance, CIRC coordinated with the Economic Crime Investigation Bureau of the Ministry of Public Security for an investigation in regard to the case clue of Hong Kong Eurasia International Case provided by the Office of the Commissioner of Insurance, Hong Kong SAR.
Assessment	Observed
Comments	Recently CIRC has improved the regulatory system for cracking down upon the fraud of Internet insurance and launched a campaign to address the risks of illegal business operation in the sector of Internet insurance. CIRC focuses on three dimensions of fraud: false insurance companies, false policies specifically in life insurance and false claims. In 2015 and 2016, CIRC has dedicated resources in the inspection department and in the regional insurance bureau available to support efforts against insurance fraud.
ICP 22	**Anti-Money Laundering and Combating the Financing of Terrorism.** The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.
Description	The main responsibility for AML lies within the PBC which also acts as the local Financial Intelligence Unit (FIU), (FIU functions within the PBC are split between the AML Bureau and China Anti-Money Laundering Monitoring and Analysis Center CAMELMAC). Suspicious transactions are reported to the FIU based on several criteria: cash transactions exceeding RMB 200,000; any event listed in the description as "abnormal transaction"; and any activity, where involved parties see potential for AML activities. CIRC is actively participating in risk evaluation, receiving information from relevant authorities and conducting on-site and off-site supervision and has an understanding of the ML/financing of terrorism (FT) risks facing insurers and intermediaries. CIRC took part in the preparation of National Report on the Evaluation of Risks of Money Laundering and Financing of Terrorism organized by PBC, which reviews and evaluates the ML/FT risks facing insurance sector in such aspects as industry status, intrinsic risks of various businesses, anti-money laundering measures and residual risks. CIRC receives relevant information from PBC and other authorities, including:

- participating in the inter-ministerial joint conferences and liaison officers conference on AML organized by PBC to learn about the overall situation of ML/FT and the specific types of ML;

- exchanging information with the PBC and the FIU regarding such matters as the on-site AML inspection and the reporting of large-sum and suspicious transactions;

- coordinating with judicial authorities, including the public security authority, in investigating specific AML cases and receives relevant information from such authorities;
- carrying out off-site AML regulation, including: (a) CIRC participates in the formulation of or independently formulates AML supervisory and regulatory regimes for insurance sector, including Administrative Measures for the Identification of Financial Institution Customers and the Storage of Customer Identity Information and Transaction Records, Administrative Measures for AML in Insurance Sector , Administrative Measures for the Evaluation of ML/FT Risks for Insurance Institutions, which are intended to guide insurers in evaluating ML risks and conducting AML work;

- conducting on-site inspection to investigate the implementation of AML work by insurers, imposes penalty with regard to identified problems and orders rectification of such problems;

- conducting AML review in terms of the market access of insurers and intermediaries, and such AML review which focuses on the capital funds and senior management entering the insurance sector from three aspects that include capital, institutions and personnel matters;
- it promulgated and implemented Notice on the Reporting of AML Information for Insurance Sector (CIRC Enforcement Department in order to keep updated about ML/FT risks facing insurance sector;

- incorporating AML work into the risk indicator evaluation system under C-ROSS, grades the AML work of insurers, and imposes capital restraints to propel the AML work of insurers; and

- publishing such information as ML risks facing insurance sector, AML work analysis and typical cases, and warns against relevant risks.

CIRC organized 24 regional CIRC bureaus between 2014 and 2015 for an inspection on the AML work of provincial branches of 94 insurers and also carries out surveys on specific AML issues, such as ML risks embedded in bank-insurance channel and Internet channel, as well as the survey on AML measures.

CIRC is working closely with PBC to establish an effective mechanism of supervisory cooperation for AML with PBC. CIRC uses communication mechanism with PBC at departmental level and pays regular visits to the AML Bureau of PBC for

	communication on matters to the concern of both sides. Both sides provide opinions and suggestions on specific matters concerning the AML work of insurance sector and communicate with each other on their daily work. Local offices of both sides have established mechanisms for information sharing and coordination.
Assessment	Observed
Comments	Since the 2010 FSAP, CIRC has conducted effective work, including cooperating with PBC in AML, promulgating three AML rules and normative documents, conducting market entrance AML review for insurers and intermediaries, conducting AML theme inspection, asking insurers to provide AML report and analysing the reports to detect vulnerabilities and making AML a part of the risk indicator assessment system of C-ROSS. CIRC enforces regulation and classification-based supervision according to industry characteristics. CIRC leverages its understanding about insurance operations and focuses on the research and practice of AML standards in the context of industry characteristics, complementing the role of PBC. CIRC has allocated regulatory resources in a reasonable manner, focusing on the regulation of systemically important companies, companies with high ML risks and high-risk products and regions, which increased regulatory efficiency. Following the model of regulation on legal persons, CIRC has enhanced the input of AML resources for its regional offices and increased supervision and guidance on the implementation status of the branch offices of insurance companies.
ICP 23	**Group-wide Supervision** The supervisor in cooperation with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
Description	*Legal framework and CIRC's role* The Insurance Laws provide only for the licensing of insurance companies. The 2010 CIRC Measures for the Administration of Insurance Group Companies provide separately for the licensing of "insurance group companies" (holding companies), which may be established only to invest in multiple insurance companies and other prescribed types of entity. There are 12 such companies licensed by CIRC at present and they (and the insurers which they control) account for around 70 percent of the insurance market. There are also groups headed by an operating insurance company as well as non-insurance groups, comprising multiple insurance companies, where the parent is not an insurance company (or insurance group company); and mixed insurance groups, where multiple insurance companies are controlled by the same controllers. However, all these are few and small (Solvency Regulatory Standards No 17: Insurance Groups, Article 3). CIRC does not have direct powers over the unregulated members of an insurance group. The model of group supervision therefore combines a direct approach (licensing holding companies) with indirect (unregulated entities). In practice, there are restrictions on insurance companies taking controlling interests in unregulated

	entities. The CIRC's Measures for the Administration of Insurance Group Companies (Articles 13 to 15) establish limits on the extent to which insurance group companies may invest in: (i) non-insurance financial companies such as banks; (ii) nonfinancial companies; and (iii) investments outside China. CIRC's role in group supervision has been articulated in the context of its new solvency standards (C-ROSS). Its role is to assume the function of group-wide supervisory coordination, to maintain cooperation and coordination with relevant group-wide supervisory authorities, establish a mechanism of cooperation with the competent authorities of non-regulated member companies, and develop a sound mechanism of information sharing and communication in order to eliminate regulatory gaps (Section 2 of Chapter V of Solvency Regulatory Standard No. 17: Insurance Groups). For the insurance groups headed by an insurance group company or insurance company, CIRC is the groupwide supervisor, including where there are other banks or securities companies in the group regulated by CBRC or CSRC (see ICP 25). The DRD of the CIRC is responsible both for the development of regulatory standards for insurance groups other than solvency requirements (Measures for the Administration of Insurance Groups, Guidelines for Consolidated Supervision of Insurance Groups, Interim Measures for the Administration of Non-Insurance Subsidiaries of Insurance Companies); and for the licensing and on-going supervision of insurance group companies. Supervision of the operating entities within a group is carried out by functional departments, who are jointly responsible for coordinating overall CIRC work on the group. DRD, because of its licensing role, in practice leads on, for example, submission of papers to the senior management of the CIRC. Five staff are responsible for this function. *Application of groupwide supervision* CIRC has identified the legal entities which comprise each insurance group and defined the scope of consolidated supervision. Under Article 48 of the Measures for the Administration of Insurance Groups, CIRC may adjust the scope of consolidated supervision and apply regulatory requirements accordingly. Insurance group companies themselves must report to CIRC on the scope of the consolidated supervision to the CIRC. CIRC has also defined the scope of groupwide supervision for the relevant groups in cooperation with other supervisors—in practice mainly other domestic regulators, although foreign companies are also included. For the purposes of groupwide supervision, including the application of solvency requirements, CIRC may require the inclusion of entities whose financial statements are not consolidated with the group, in cases where such entities pose particular

	risks to the group, including risks to its reputation (Measures for the Administration of Insurance Group Companies, Article 47). Unregulated entities are included in groupwide supervision. Insurance groups are subject to requirements on oversight of such entities (under Article 30 of the Measures for the Administration of Insurance Group Companies, they must maintain the asset-liability ratio of nonfinancial subsidiaries at a reasonable level so as to achieve the safe and sound operation of the whole group). There are also obligations on insurance group companies to assess whether the legal structure and management structure of the group poses significant risks and exercise oversight and control of unregulated entities (Article 12 of the Guidelines for the Consolidated Supervision of Insurance Groups). The main elements of the framework apply mainly to insurance groups as defined and do not capture non-insurance and mixed insurance groups. However, all types of groups are subject to the group solvency standards (Solvency Regulatory Standard No. 17, Article 3).
Assessment	Observed
Comments	CIRC has established a framework of measures and guidelines that establish comprehensive groupwide supervision of insurance groups. The framework is being applied in practice to all groups and has enabled CIRC to apply a wide range of regulatory standards, including on solvency and capital management, governance, risk management, IGT and disclosure, to insurance groups as well as to carry out oversight of groupwide risks. It is recommended that the revised insurance legislation being developed by CIRC for submission to the State Council and People's Congress include more explicit powers in relation to groupwide supervision so as to ensure that CIRC can continue to exercise effective groupwide oversight.
ICP 24	**Macroprudential Surveillance and Insurance Supervision** The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.
Description	CIRC, in common with other insurance supervisors, is developing its approach to macroprudential regulation, building on the continuing implementation of the C-ROSS framework and existing G-SII regulation. *Identification of trends and risks and regulatory responses* CIRC undertakes analysis of market developments and emerging risks based on:

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data submitted by insurance companies in their regular reporting, supplemented by ad hoc requests for information, as needs arise;
observation of changes in economic and financial conditions, focusing on variables identified as having a particular impact on insurance companies, including interest rates as well as developments in key sectors of the economy such as car production and sales (given the importance of motor insurance); and
in relation to the evaluation of plausible unfavorable future scenarios, occasional, targeted stress tests in addition to the results of stress-testing submitted to the CIRC together with regulatory reports.

Various departments and functions within CIRC have responsibilities in this regard, including DRD and Policy and Research Department in relation to macroeconomic assessment. Individual departments produce analysis in their areas of responsibility. They also carry out stress tests, for example a recent exercise by the Property (i.e., non-life) Department to evaluate the risks associated with the rapid growth of certain types of credit insurance.
The results of the analysis are made available within CIRC, including the supervisory functions, and may be shared with insurance companies. For example, the actuarial divisions within the supervisory departments draw on the macroeconomic analysis to assess potential impacts on individual insurers.
The PBC publishes an annual Financial Stability Review, which includes analysis of insurance sector developments, drawing on CIRC data. CIRC publishes certain aggregate information and makes more available to the IAC, which publishes extensive information about the sector on its website. CIRC is also looking to the C-ROSS framework to increase transparency of insurance sector risks: insurers are required to publish key data themselves on their solvency and risk (see ICP 17 and ICP 20).
CIRC acts to inform the insurance sector of developments which it regards as important, changes in relevant requirements or guidance and any action which it requires companies to take. It issues risk alerts or "window guidance" in response to the discovery of significant risks. In March and September 2016, for example, CIRC drew attention to the rapid growth in short to medium term life insurance products, which have similar characteristics to bank deposits, and strengthened its requirements with immediate effect.
CIRC is aware of the potentially procyclical impact of its new C-ROSS solvency standards, given the much increased risk sensitivity compared with the previous regime. Some countercyclical features are built into the requirements at the level of the risk factors (see ICP 17). There is also provision for CIRC to apply a countercyclical additional capital requirement as well as higher solvency requirements for systemically important insurers. These have not been used as yet, given the newness of the overall framework.
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	Systemic risk in insurance products and markets CIRC's market analysis includes monitoring for potential systemic risk, including: • Non-traditional business: insurers have been diversifying rapidly in recent years, in life insurance away from traditional products, with a strong protection basis, but mostly into products that are well-established in other markets: participating polices, investment-linked and universal life (non-life has been developing also, although motor insurance remains the core product). • The high degree of insurance company exposure to banks, which results from the large share of insurance company funds represented by bank deposits (RMB 3.96 trillion out of around RMB 12 trillion in total) and could lead to contagion (bank exposure to insurers is however, limited). Insurers have experimented with products sometimes associated with systemic risk, including variable annuities, which CIRC approved for a small numbers of insurers in 2009 on a pilot basis. The product was not successful, partly because of the limited scope for effective hedging given the absence of deep and liquid derivative markets. CIRC identified and has responded to the increased credit insurance (mostly loan insurance and performance guarantees) being written by non-life insurers. *Systemic risk in insurance companies* CIRC is developing its own process for evaluating D-SIIs and expects to finalize and implement the framework in 2017. The D-SII proposals on which CIRC has been consulting are based on the framework for G-SIIs. However, CIRC proposes to take into account corporate governance as well as scale, external interconnectedness, assets liquidation and substitutability. A list of D-SIIs has not yet been published. The D-SII framework will also take account of non-traditional business, broadly-defined. The CIRC has been applying the G-SII framework to the Ping An Group. It has worked with the group to develop a Systemic Risk Management Plan and Liquidity Management Plan and worked with the group on a RRP—see ICP 26. CIRC has no explicit powers or requirements in this regard, drawing instead on the FSB framework and cooperation with the G-SII. CIRC will have powers, under its measures on the regulation of D-SIIs currently under development, to impose requirements on D-SIIs, including in due course to require higher loss absorbency under the framework being developed by the IAIS.
Assessment	Largely Observed
Comments	CIRC uses the extensive data reported by insurers as well as other information and targeted stress tests to monitor the insurance market for significant trends. It draws on macroeconomic data and analysis to identify risks to the sector. The focus is mainly domestic, reflecting the limited international dimension to the insurance sector. CIRC also monitors for systemic risk in insurance products, taking into

	account the predominance of traditional and otherwise standard products in the market and the influence of distribution channels such as bancassurance. While CIRC is already applying enhanced supervision of the G-SII, the framework for macroprudential regulation will be much strengthened next year with the planned introduction of requirements for D-SIIs.
ICP 25	**Supervisory Cooperation and Coordination** The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.
Description	Chinese insurance groups have relatively limited international business and the main focus of cooperation and coordination with other authorities is within China. *Cooperation with other domestic regulators* The arrangements have been developing based on clearly-defined responsibilities for each agency (CIRC, CSRC, CBRC, and PBC). In particular, an MoU establishes the responsibilities for groupwide supervision of groups with activities in different sectors. While many insurance groups also contain asset management companies (mainly focused on insurance funds—see ICP 4) and a number of banks own smaller insurance companies, Ping An Group is the only Chinese group with significant cross-sector interests. Groupwide supervision is clearly allocated to the CIRC as the group is headed by an insurance holding company. CIRC has identified increasing interest in the development of financial conglomerates. Cross-sector holdings are permitted under law, but in the case of linkages between banks and insurers, only with the agreement of the State Council. Under Article 157 of the Insurance Law, CIRC must establish a supervision and administration information-sharing mechanism with the PBC and other financial regulators. In 2008, CIRC and CBRC signed a bilateral MoU on cooperation with regard to groups containing both banks and insurers (MoU between CBRC and CIRC on Strengthening In-Depth Cooperation and Cross-Sectoral Supervisory Cooperation). There is no such arrangement between CIRC and CSRC. In 2013, with State Council agreement, the agencies and the SAFE established the Financial Regulatory Coordination JMC. Departments under the National Development and Reform Commission and MoF may also participate in meeting where invited for specific items, as necessary. The secretariat is provided by the PBC. JMC has a remit to enhance inter-agency regulatory coordination and information sharing in respect, among other areas of: • financial regulatory policies, laws and regulations; • financial stability and preventing regional or systemic financial risks; • cross-sector financial products and cross-market financial innovations; and

	• financial information sharing and the establishment of an integrated financial statistical system. The JMC, which is chaired by the PBC, meets quarterly at ministerial level, but has various sub-groups at working level and provides an expectation of day-to-day cooperation between the agencies. In practice, there is cooperation between agencies on an informal as well as formal basis, coordinated as necessary by the DRD of the CIRC (see also ICP 23). The JMC process focuses mainly on policy issues, but may also discuss supervision of individual entities as required. The JMC is not a decision-taking body. As noted in ICP 26, the CIRC has established a Crisis Management Group (CMG), comprising CIRC, CBRC, and the CISF (insurance guarantee scheme) to work in recovery and resolution issues with regard to the G-SII, Ping An Group. *Cooperation with foreign regulators* While CIRC has not determined a final list of Internationally Active Insurance Groups (IAIGs) as defined by the IAIS for the purposes of the framework for insurance group regulation, only a small number of groups are likely to meet the definition. Even the G-SII, Ping An Group, has foreign operations only in Hong Kong. 12 Chinese insurers have some foreign business (branches or subsidiaries) in Hong Kong, Singapore, UK and other countries. Equally, some Chinese insurers are understood by the CIRC to be interested in expanding abroad and one insurance group has recently expressed interest in acquiring an insurance company in the USA. Insurers have also been increasingly investing their insurance funds in foreign assets, from a low base (less than 3 percent of total insurance sector assets are invested abroad at present). Around 70 foreign insurance groups, from (amongst other countries) Germany, France, USA, Switzerland, Bermuda, Japan, Korea, and the UK, have operations in Mainland China, as does one group based in Hong Kong SAR. Their operations are relatively concentrated in eastern provinces and selected products and customers. For life insurance, insurers from outside China may operate only as joint ventures, with the foreign shareholding limited to 51 percent of the total. In non-life insurance, foreign insurers may own up to 100 percent of a subsidiary in China. Foreign reinsurance companies may operate as branches in China as well as on a cross-border basis directly into China from abroad. One life insurance group, AIA, which is based in Hong Kong, has been allowed to operate in branch form in Mainland China. Foreign insurers' market share of primary insurance is around 6 percent of total premium income in life and 5 percent in non-life.

	In relation to cooperation, CIRC has: • signed MoUs with a number of regulators and is open to the exchange of information (see ICP 3); MoUs vary by jurisdiction and focus on exchange in information rather than, for example, joint working (such as inspections) or cooperation on supervisory assessment; • established active bilateral relationships with a number of key regulators outside Mainland China, particularly Hong Kong (Office of the Commissioner of Insurance) and more recently the Iowa Insurance Division (the state regulator) in respect to the acquisition by the Anbang Group; and is in the process of establishing other relationships, including with the regulator in France; • held occasional meetings bringing together the regulators of Hong Kong, Macao and the CIRC bureaus in Guangdong and Shenzhen to discuss regional issues; and • attended meetings of colleges of supervisors established by foreign regulators for some of the groups of which CIRC has host state responsibilities (AIG, AIA, and AXA Insurance Group). CIRC has arranged meetings of foreign supervisory agencies to discuss enhanced cooperation and cross-border supervisory risks. It has not established a college of supervisors. This reflects the limited scale, at present, of domestic groups' international operations and the CIRC's preference for bilateral cooperation arrangements. For the same reasons, CIRC has not carried out on-site inspections on domestic insurers' operations outside Mainland China. Under the requirements on foreign insurers, foreign ownership is restricted to financial institutions (so foreign nonfinancial investors may not own insurers). A foreign insurer that applies to establish an insurer in China (a "foreign-funded insurance company") must be subject to effective regulation from the relevant home authorities and in particular meet the home supervisor's solvency standards (Article 8 of the Regulations on the Administration of Foreign-Funded Insurance Companies). However, CIRC does not carry out an assessment of the equivalence of the foreign regulator's requirements with its own ("supervisory recognition" in terms of ICP25). Discussions are taking place with EIOPA on the equivalence of the European Union and Chinese frameworks.
Assessment	Partly Observed

Comments	The CIRC has been increasing cooperation with other regulators, through the new JMC arrangements and mainly bilateral arrangements with foreign regulators. Its approach reflects the limited internationalization in practice of the Chinese market to date. There is scope for closer cooperation with the CSRC, to reflect the CIRC's responsibilities for asset management and the importance of insurers as investors in capital markets. In relation to international cooperation, there is scope to update and extend the scope of bilateral supervisory cooperation arrangements and to incorporate supervisory recognition of foreign regulatory regimes, taking into account the recent significant development of the Chinese regime, in areas such as C-ROSS. It is recommended that CIRC: • continue to deepen supervisory cooperation within the JMC framework and bilaterally, including with the CSRC in relation to areas of shared interest; • establish a framework for assessing the equivalence of foreign regulators (particularly in relation to their consolidated supervision), where significant in relation to foreign-funded insurers, and in case of future expansion of domestic insurers outside China; and • review, update and extend its network of MoUs with foreign regulators to incorporate provisions on supervisory cooperation to supplement provisions on exchange of information (see also ICP 3).
ICP 26	**Cross-border Cooperation and Coordination on Crisis Management** The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.
Description	The CIRC's work on cross-border crisis management is limited, reflecting the low level of cross-border business of Chinese domestic insurers, the limited scale of foreign insurers' operations in China (see ICP 25) and the lack of experience of an actual crisis. (Two Chinese life insurance companies suffered financial strain in 2008 and were supported by the CISF—see ICP 12—but had no foreign business.) In practice, the CIRC has focused on the process of RRP for G-SIIs, as established by the Financial Stability Board (FSB) and the IAIS. A CMG was established in 2014 for the only G-SII for which CIRC is the groupwide supervisor, Ping An Group. CMG members are CIRC, which chairs the work as groupwide supervisor and resolution authority, CBRC and CISF. CIRC has worked with the group management on the development of the RRP, which has been developed by Ping An itself, and carried out a resolvability assessment, the first version of which was completed in June 2016. CIRC has approached the work in line with its overall approach to potential financial stresses at insurers and insurance groups which is to place a high emphasis on crisis

	prevention, the early identification of problems and the management of stress in the first instance by the responsible sectoral supervisor using sectoral powers (see ICPs 11 and 12 on CIRC's powers). To the extent that group-wide risks emerge, the CIRC would arrange teams comprised of CMG members to coordinate the response. Foreign supervisors have not been involved in the CMG, which (as in other countries) has been limited to the supervisors and authorities for the most significant parts of the group. The supervisory authority in Hong Kong SAR has, however, been informed of the progress of the work and the implications for the Hong Kong operations. The experience of the RRP work on the G-SII will be reflected in due course in the developing the recovery and resolution framework for D-SIIs (see ICP 24). In relation to insurers whose groupwide supervisor is located outside Mainland China, CIRC's approach takes account of their significance in China (although numerous, foreign insurers are not material to the Chinese market or the parent entity—see ICP 25). For those which are G-SIIs, the CIRC would not expect to be included in a CMG. It is, however, open to cooperation on crisis management with the home supervisors via other mechanisms, including participation in supervisory colleges.
Assessment	Largely Observed
Comments	The CIRC has powers and processes for addressing an insurance company crisis, including RRP for the one G-SII for which it has groupwide responsibility. Crisis preparedness has been tested, but only by experience of domestic companies in stress. Crisis management planning has not been a focus of cross-border supervisory work, reflecting the limited internationalization of the market, although CIRC has the ability to share relevant information with foreign supervisors. Most of the focus on crisis management preparedness has been on the G-SII group, which is also the most significant cross-sectoral group. There is a need to ensure that other insurers, some of which may have more significant cross-border operations than the G-SII, are subject to appropriate crisis management preparedness requirements, and that processes are available to manage a cross-border crisis in practice. It is recommended that: • In addition to completing its planned development of its D-SII framework, which will capture cross-border business, CIRC review the scope of its crisis management planning for all insurers with foreign operations to ensure that there is adequate focus on crisis preparedness in supervisory work; and • CIRC develop a framework for crisis simulation involving an insurance group, to test how it would react in case of a crisis. While more useful for a banking crisis, an exercise simulating how CIRC, CISF, etc. would deal with a crisis at a major insurance group would be useful in testing how communications would work, whether adequate information was available, and whether the authorities had the right tools to deal with the crisis.