



Enhanced Risk Control & Focus on Serving the Real Economy

C-ROSS 2016Q4 &
2017Q1 Disclosures

May 2017

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Executive summary

Part 1 - Key industry and regulatory developments (1/2)

Key industry statistics

According to data released by the China Insurance Regulatory Commission (CIRC), the gross insurance premium income of China's insurance industry was RMB3.10 trillion in 2016, up 27.5% from that in 2015. In the first quarter of 2017, premium reached RMB1.59 trillion, up 32.5% from the same period last year, with property & casualty (P&C) premium up 12.7%, and life premium up 37.2%. In terms of total premium including fund value for universal life and unit-linked products, in 2016 it hit RMB3.45 trillion, up 42.6% from that in 2015. In the first quarter of 2017, the volume was RMB1.56 trillion, down by 1.8% from the same period last year.

As at March 2017, total assets of the insurance industry had increased 7.0% to RMB16.18 trillion from the beginning of the year. The total balance of investable funding was RMB14.07 trillion, up 5.1% from year end 2016. In the meantime, the pool of insurance industry players continued to expand. Twenty-two insurers received regulatory approval in 2016 to establish, with another 10 approvals granted up to 10 May this year.

Key regulatory developments

Recently, risk prevention and control has become the focus for the industry and CIRC. The tone from the top is that the insurance industry must serve the real economy and the overall national development strategy. To that end, CIRC has published the "*Notice on further enhancement of risk prevention and control of the insurance industry*", which emphasises that liquidity risk, investment risk, strategy risk, emerging product risk, risk contagion, group risk, fake capital risk, and reputational risk are key areas for regulatory monitoring. In addition, a great many insurance companies have actively supported the national development priorities such as "One Belt One Road", "Green Industry", and the "Yangtze River Economic Zone" by providing risk protection services and funding.

❖ Corporate governance

CIRC has recently published a series of regulations on corporate governance. The public consultation on the draft of "*Shareholding Management Rules for Insurance Companies*" has been completed. These new rules will classify shareholders by financial shareholder, strategic shareholder, or controlling shareholder. Shareholding percentage of any one investor type shall be limited to one-third (as opposed to 51% currently) of the total equity of an insurance company. Once the rules become effective, a number of companies in the market will have to change their ownership structure by finding new investors or other means.

❖ Insurance products

Regarding life insurance, CIRC has published many new regulatory policies, aimed at limiting the sales of short-term, high-cash-value and high-guarantee savings products. In particular, the recently published "*Notice on standardizing life product design and development*" ('the Notice') further limits the aggressive expansion of certain scale-oriented insurance companies. The Notice puts forward a series of new requirements for life insurance product design and development, and requires immediate remediation actions by insurers. The broad coverage and significant influence of the Notice demonstrates CIRC's determination to encourage more protection type insurance product sales and may ultimately represent a bifurcation juncture for the industry. The explosive growth of certain insurers via the aggressive sales of short-term savings products will likely be replaced by a more sustainable value-driven development agenda.

For P&C insurance, CIRC introduced the "*Guidance on P&C company product development*" and "*Guidance on P&C company premium rating*" on 1 January 2017. Recently, CIRC has also initiated large scale on-site inspections regarding the motor insurance market, aimed at reducing certain abusive market practices and preparing for the next phase of the motor insurance rate reform. These actions are expected to support the healthy development of the post-rate reform motor insurance market and insurance product innovation.

Executive summary

Part 1 - Key industry and regulatory developments (2/2)

Furthermore, CIRC has strengthened the supervision of government policy-oriented insurance. For example, CIRC plans to conduct special inspection of agricultural insurance in June. CIRC has also been soliciting opinions within the industry on new regulatory requirements for credit and guarantee insurance.

❖ China Risk-Oriented Solvency System (C-ROSS)

After several months' fieldwork and analysis, CIRC released the inaugural Solvency Aligned Risk Management Requirements and Assessment (SARMRA) scores to insurance companies in December 2016. In general, SARMRA scores had risen compared with the trial assessment results in 2015, indicating an improvement of the industry's risk management capabilities. However, a large portion of insurers fell short of 80 (of total score of 100) in their SARMRA scoring. According to C-ROSS rules, for these insurers, a control risk capital charge will be added to their respective minimum capital requirements, hence reducing their solvency ratios.

The second phase of C-ROSS rule development is also being planned, following the 1-year trial implementation and subsequent 1-year formal implementation. To clarify its main direction, CIRC aims to compile a written research report on C-ROSS covering four aspects, namely: 1) shortcomings in the regulatory rules; 2) shortcomings in the operation of C-ROSS; 3) problems in the effective implementation of C-ROSS; and 4) suggestions to leverage C-ROSS in risk management, to enhance industry risk management capabilities and promote regulatory changes. The second phase of C-ROSS is set to further complete the solvency regulation and should further clarify dealing with issues regarding innovation assets, emerging insurance business, and new insurance organisations, which should steadily promote the healthy development of the insurance industry and enhance respective comprehensive risk management capabilities.

❖ Life insurers' asset-liability management

CIRC has recently published the exposure draft of "*Life Insurers Assets-Liability Management Capability Evaluation Standard*", which incorporates a similar methodology to SARMRA to evaluate insurers' asset-liability capability based on the pillars of "Foundation and Environment", "Control and Process", "Model and Tools", and "Performance Appraisal and Management Reporting". Once finalised and implemented (expected in 2018), CIRC plans to take differentiated regulatory actions based on the evaluation results. In other words, insurers may face varying regulatory treatments regarding insurance fund utilisation, product sales, solvency and other aspects.

❖ Serve the real economy

On 4 May 2017, a new regulation came into effect, focusing on four aspects of the insurance industry to support the development of the real economy. These four aspects include the construction of a risk security system for the real economy, guidance of insurance funds to serve the national development strategy, innovation of insurance services for the real economy, and continuous improvement of insurance regulation. To promote the innovation of financing for cooperation projects between the government and social capital, another regulation regarding investment of insurance funds has been introduced. Also, CIRC has released a regulation to help channel insurance funds into major infrastructure projects that would hopefully wield significant positive influence at both macro and regional economic levels.

In response, many insurers, especially large companies, have shifted their development focus. They have actively participated in the construction of security systems, and deployed investment funds into certain major infrastructure construction projects, state-owned enterprise ownership reform, and the development of strategic emerging industries.

Executive summary

Part 2 - Solvency summary (1/2)

Data source and explanations

As at 10 May 2017, **75 life insurance companies** (of 78 in total), **78 P&C insurance companies** (of 81 in total) and **10 reinsurance companies** (of 11 in total, including Lloyd's China, which is registered as a direct insurer but primarily conducts reinsurance business) had disclosed their 2017 first quarter solvency reports. During our review on the data collected, we noted certain data quality issues and made necessary adjustments. Please also note that our report and statistics only cover data for insurers and reinsurers **at legal entity or branch level (not at group level)**. If discrepancies exist between this report and the data released by CIRC, the CIRC releases shall prevail.

It is worth mentioning that the 2016Q4 data in this report is the post-audit data. Compared with the pre-audit data in the 2016Q4 C-ROSS disclosures, we found that the industry key solvency indicators had deteriorated. For example, actual capital relative to pre-audit figures had fallen 4.4%, core capital was down 4.3%, minimum capital was down 2.7%, and comprehensive/core solvency adequacy ratio was down by 5.6%.

Integrated risk rating (IRR)

As at 10 May 2017, 157 insurance companies had disclosed their C-ROSS IRR, where 80 were rated A, 74 were rated B, one was rated C, and two were rated D. Companies rated A and B grade with lower risk levels accounted for 98.1%. Compared with the prior quarter, 11 companies were downgraded, while 13 were upgraded. **Please see page 7.**

- **Life insurance companies:** 37 were rated A, 32 were rated B, one was rated C, and two were rated D. Compared with the prior quarter, four companies were downgraded, while eight companies were upgraded.
- **P&C insurance companies:** 37 were rated A, 39 were rated B, while none were rated C or D. Compared with the prior quarter, seven companies were downgraded, while two companies were upgraded.
- **Reinsurance companies:** Six were rated A, and three were rated B. Compared with the prior quarter, three companies were upgraded.

Actual capital, minimum capital and comprehensive/core solvency surplus

Overall, the key solvency indicators improved from 2016Q4. In 2017Q1, actual/core capital was RMB 3.13 trillion/2.88 trillion, an increase of 6.1%/6.9%; minimum capital was RMB1.33 trillion, an increase of 8.3%; comprehensive/core solvency surplus was RMB1.80 trillion/1.55 trillion, an increase of 4.5%/5.7%.

- **Life insurance companies:** Key solvency indicators increased compared with the prior quarter.
- **P&C insurance companies:** Key solvency indicators increased compared with the prior quarter.
- **Reinsurance companies:** Actual capital and minimum capital increased compared with the prior quarter, while comprehensive/core solvency surplus decreased.

Executive summary

Part 2 - Solvency summary (2/2)

Solvency adequacy ratio

Overall, the industry capital levels remained adequate, while the comprehensive solvency adequacy ratio and the core solvency adequacy ratio of 2017Q1 exceeded 200%. Only two life insurance companies had serious solvency issues. Compared with the prior quarter, the comprehensive/core solvency adequacy ratios had fallen.

- **Life insurance companies:** The solvency adequacy ratio fell slightly, with the comprehensive solvency adequacy ratio falling from 232% the prior quarter to 229%, and the core solvency adequacy ratio falling from 214% to 212%.
- **P&C insurance companies:** The solvency adequacy ratio decreased, with the comprehensive solvency adequacy ratio falling from 285% the prior quarter to 271%, and the core solvency adequacy ratio falling from 249% to 238%.
- **Reinsurance companies:** The solvency adequacy ratio also fell, with the core/comprehensive adequacy ratios falling from 242% the prior quarter to 224%.

Minimum capital structure

The minimum capital structure for the whole industry remained stable. **Please see pages 12-14.**

- **Life insurance companies:** Percentage (of companies) deemed facing market, insurance and/or credit risks increased slightly.
- **P&C insurance companies:** Percentage deemed facing insurance risk increased slightly, while that of market and/or credit risk fell slightly.
- **Reinsurance companies:** Percentage deemed carrying insurance risk fell slightly, while that of market and/or credit risk increased slightly.

Net cash flow (NCF)

Compared with the prior quarter, NCF of the insurance industry deteriorated in 2017Q1. Companies with negative NCF increased to 71 from 51 the prior quarter. Companies with negative NCF fell to 76 from 91 the prior quarter. **Please see page 16.**

Net profit

The total net profit of China's insurance industry in 2017Q1 was RMB32.29 billion, down 22.5% from the prior quarter. **Please see page 17.**

- **Life insurance companies:** Profitability of life insurers deteriorated, with net profit at RMB20.8 billion, down 37.6% from the prior quarter.
- **P&C insurance companies:** Profitability of P&C insurers improved, with net profit at RMB11.06 billion, up 34.0% from the prior quarter.
- **Reinsurance companies:** Profitability of reinsurers improved markedly, with net profit at RMB430 million, up 808.3% from the prior quarter.

SARMRA scores analysis

- 72 life insurers received an average score of 76.35 and 28% of them reached 80.
- 77 P&C insurers received an average score of 70.72 and only 8% of them reached 80.
- 10 reinsurers received an average score of 82.10 and 80% of them reached 80.

Please see pages 18-25.

Correlation analysis of key solvency indicators

Generally, we noted only a weak correlation between the SARMRA score and the integrated risk rating within certain range. **Please see pages 27-28.**

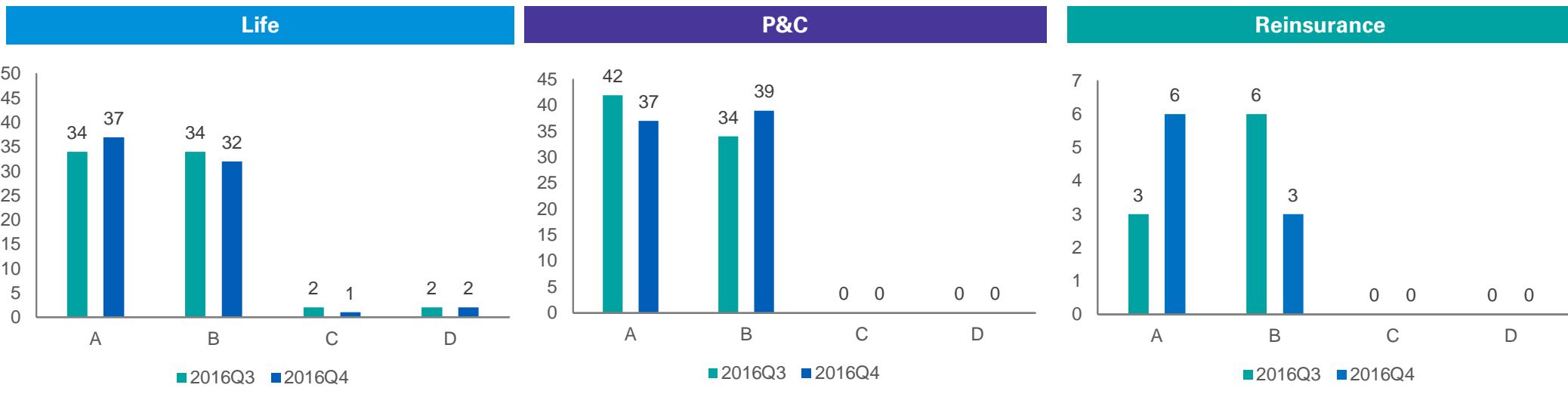
Meanwhile, evidence was lacking to conclude that SARMRA score and solvency ratio were significantly correlated. However, as SARMRA scores fell, solvency adequacy ratios in corresponding areas were spread over a wider range. **Please see pages 29-30.**

1 Industry solvency analysis



Integrated risk rating

- ❑ 157 companies had disclosed 2016 Q4 C-ROSS IRR as at 10 May 2017.
- ❑ For most insurance companies, the ratings under C-ROSS remained stable compared with the prior quarter.
- ❑ For life insurance, eight companies were upgraded while four companies were downgraded. For P&C insurance, two companies were upgraded while seven companies were downgraded.
- ❑ Six reinsurance companies received A ratings and three received B ratings.



* 6 life insurers did not disclose C-ROSS IRR in 2016Q4

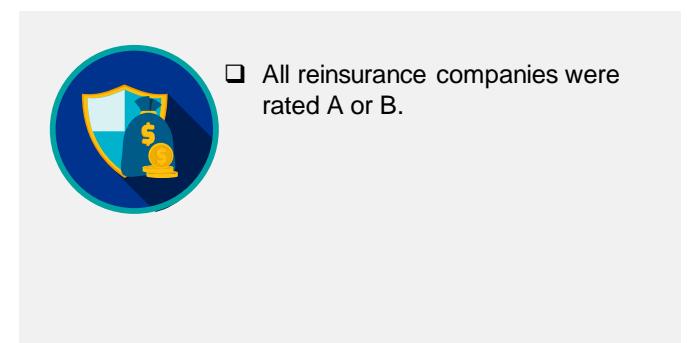
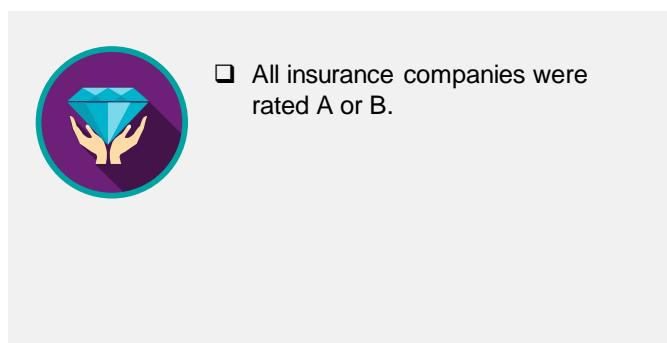
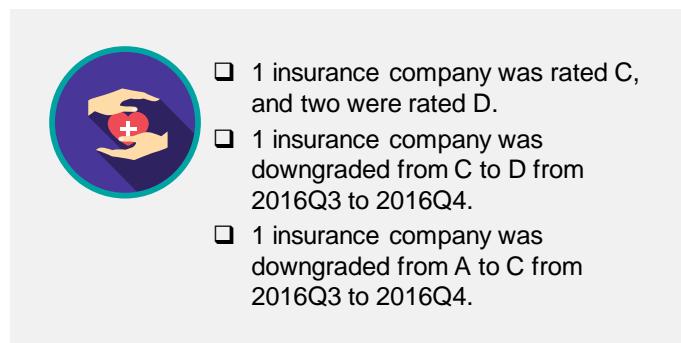
* 5 life insurers did not disclose C-ROSS IRR in 2016Q3

* 5 P&C insurers did not disclose C-ROSS IRR in 2016Q4

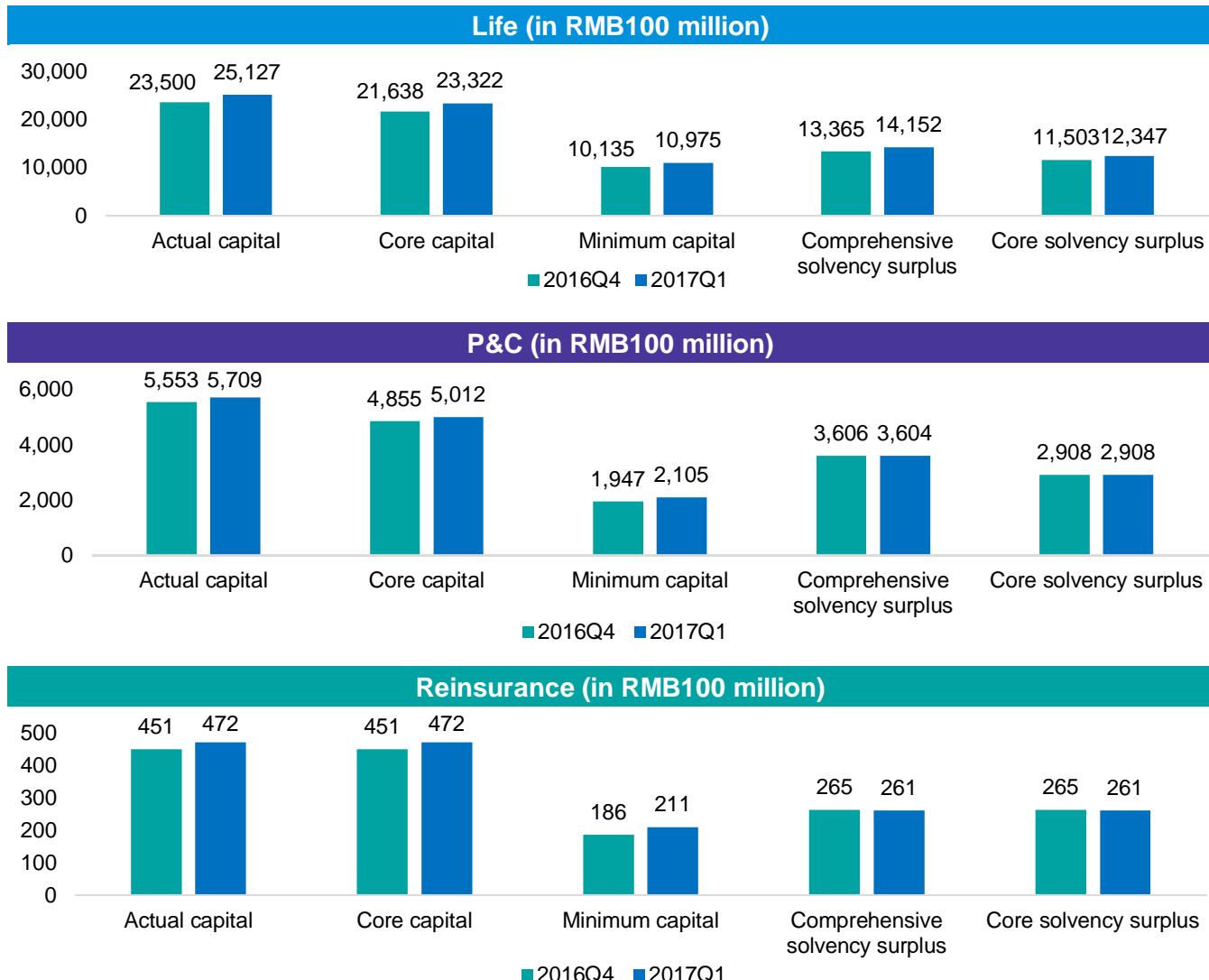
* 3 P&C insurers did not disclose C-ROSS IRR in 2016Q3

* 2 reinsurers did not disclose C-ROSS IRR in 2016Q4

* 1 reinsurer did not disclose C-ROSS IRR in 2016Q3



Key solvency indicators



- The life insurers' key solvency indicators increased from 2016Q4 to 2017Q1.

*75 life insurers had disclosed information as at 10 May, 2017

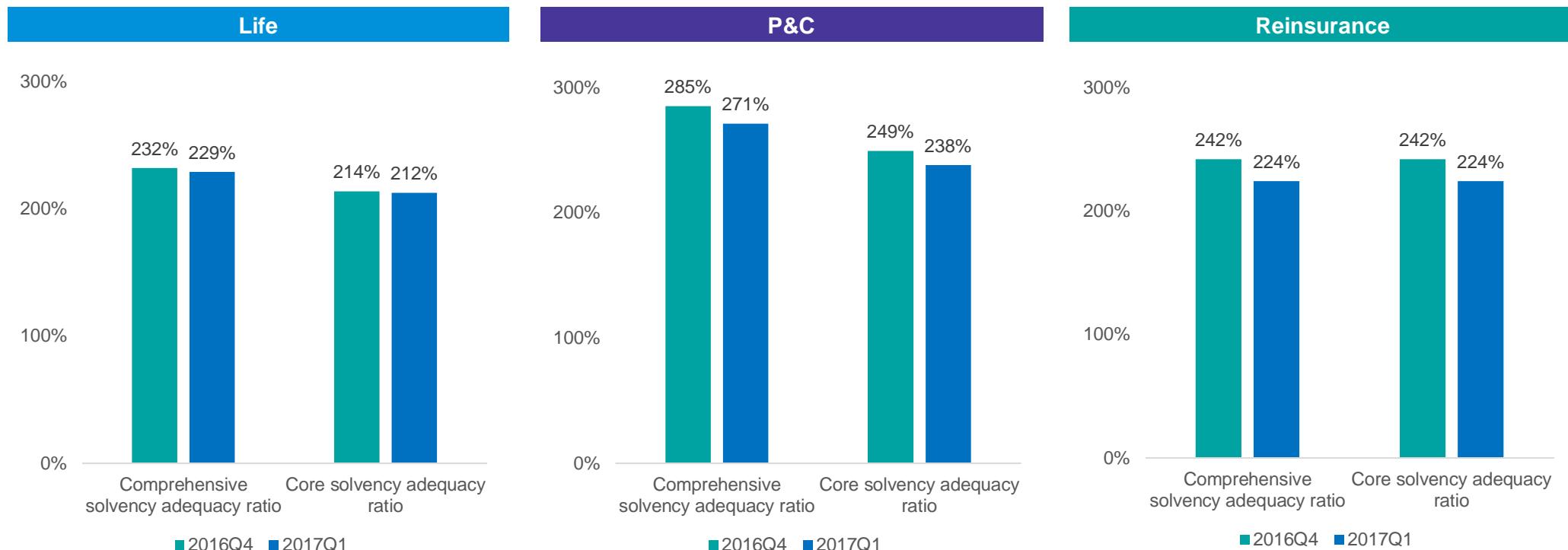
- The P&C insurers' actual capital, core capital and minimum capital increased while comprehensive/core solvency surplus remained stable.

*78 P&C insurers had disclosed information as at 10 May, 2017

- The reinsurers' actual capital, core capital and minimum capital increased while comprehensive/core solvency surplus fell slightly.

*10 reinsurers had disclosed information as at 10 May, 2017

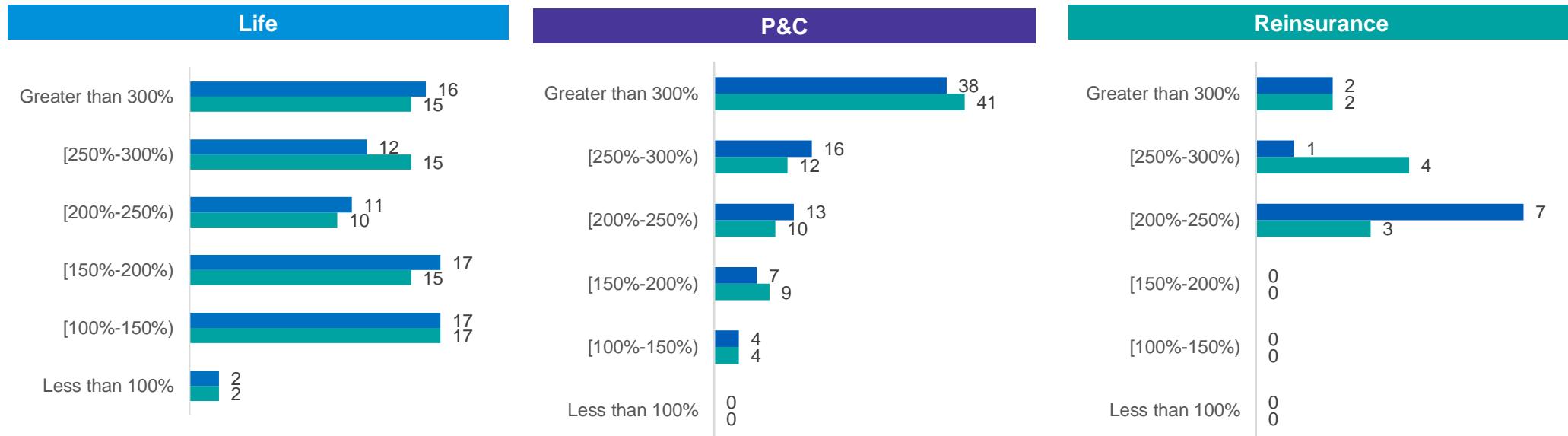
Industry solvency adequacy ratio



* 75 life insurers, 78 P&C insurers and 10 reinsurers had disclosed information as at 10 May 2017.

- Overall, solvency ratio of the whole industry remains adequate, at over 200%. Compared with the prior quarter, life insurers' solvency ratio fell slightly while P&C insurers and reinsurers' solvency ratio exhibited a more significant drop.
- Measures to improve solvency include capital injection, bond issuances, business mix adjustments, reinsurance arrangements and investment allocation adjustments. Capital injection impact is immediate but may not be sustainable. During 2017Q1, capital injection of RMB4.37 billion incurred for two life insurers and RMB0.3 billion for one P&C insurer.

Comprehensive solvency adequacy ratio



17 57 0

*75 life insurers had disclosed information as at 10 May, 2017

20 55 1

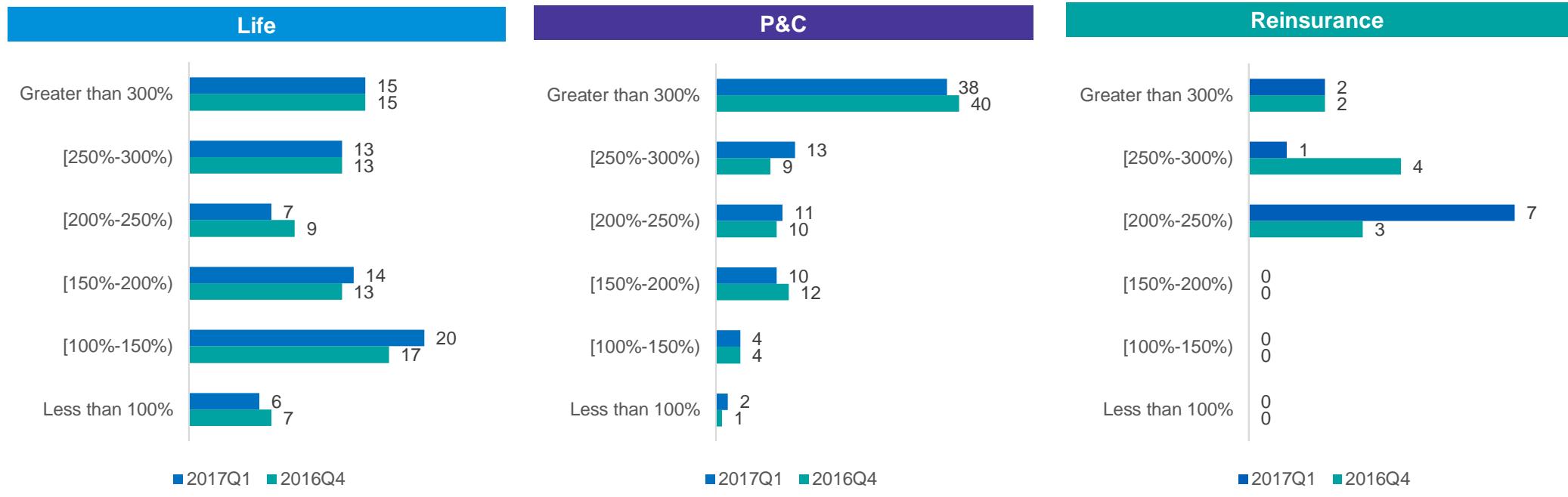
*78 P&C insurers had disclosed information as at 10 May, 2017

1 7 1

*10 reinsurers had disclosed information as at 10 May, 2017

- Most companies' comprehensive solvency ratios decreased in 2017Q1. Two life insurers' comprehensive solvency ratios were negative.

Core solvency adequacy ratio



18 56 0

22 53 1

1 7 1

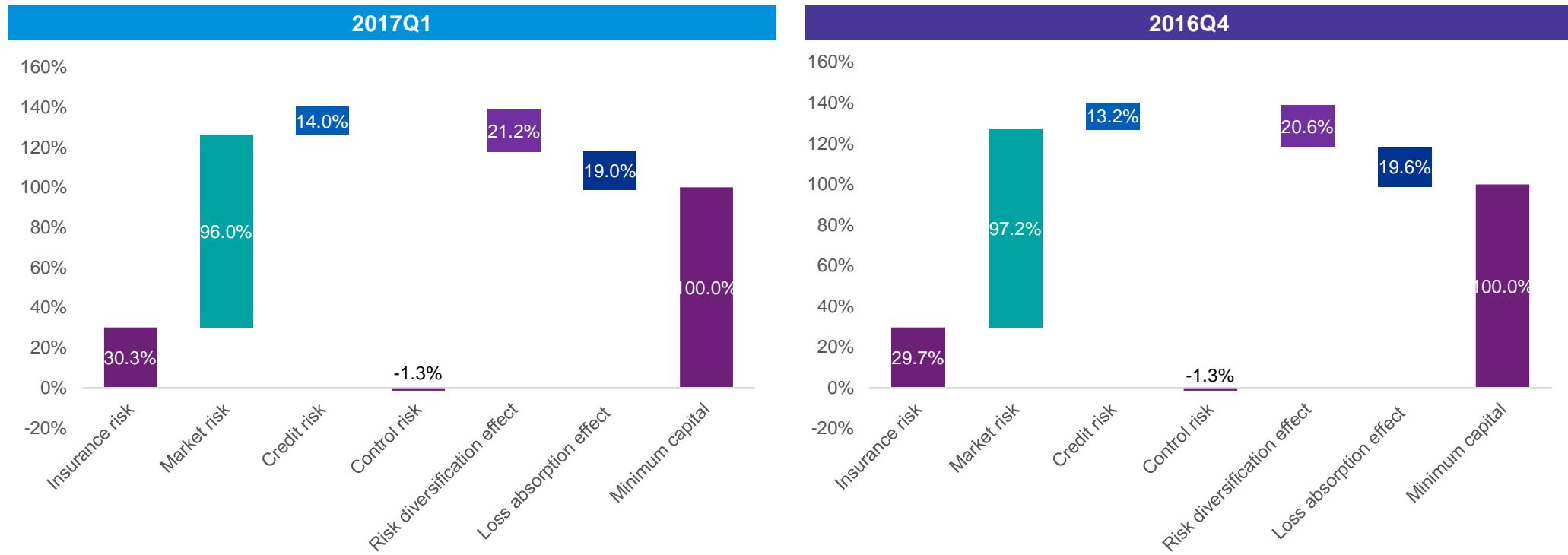
*75 life insurers had disclosed information as at 10 May, 2017

*78 P&C insurers had disclosed information as at 10 May, 2017

*10 reinsurers had disclosed information as at 10 May, 2017

- ❑ Only core capital is considered in the core solvency adequacy ratio calculation as opposed to the comprehensive solvency adequacy ratio which also takes supplement capital into account.
- ❑ The changes in the 2017Q1 core solvency adequacy ratio were similar to the changes in the comprehensive solvency adequacy ratio.

Minimum capital structure for life insurance companies



*Data disclosed by small and medium-sized companies may not be complete. But it should not have a material impact on the overall result.



- ❑ Minimum capital structure of life insurance companies remained stable in 2017Q1.
- ❑ The percentage of companies deemed as having insurance risk and/or credit risk increased slightly, while that of companies deemed having market risk decreased slightly.
- ❑ The minimum capital for control risk has been disclosed since 2016Q4.

Minimum capital structure for P&C insurance companies

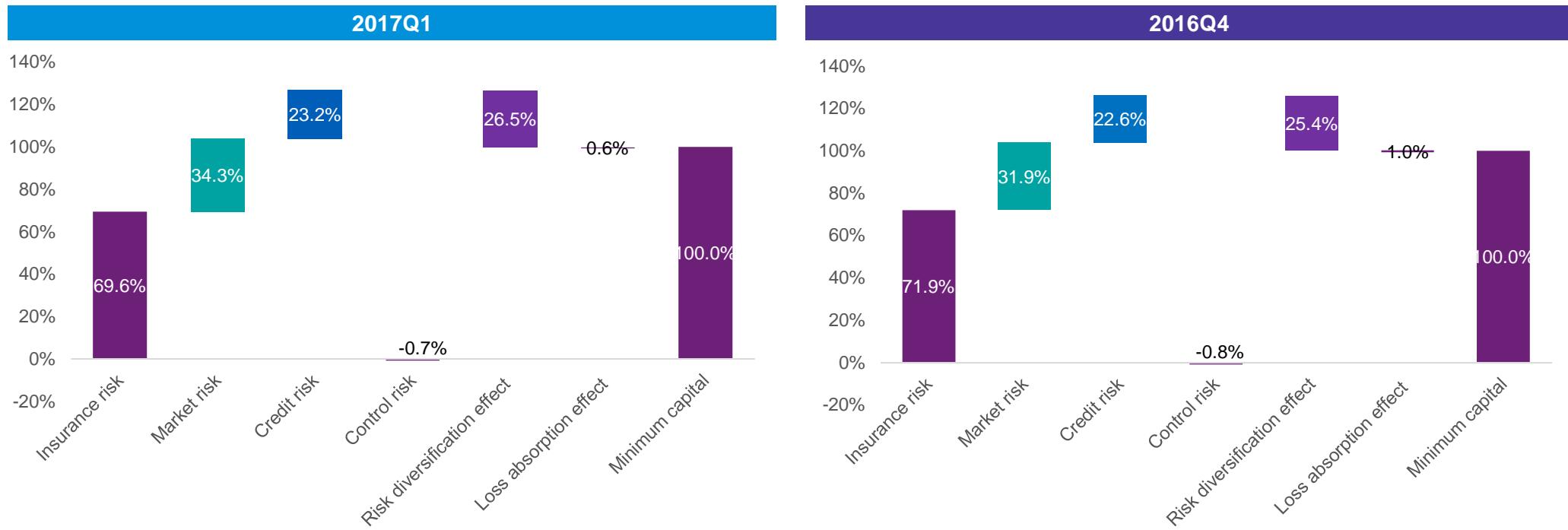


*Data disclosed by small and medium-sized companies may not be complete. But it should not have a material impact on the overall result.



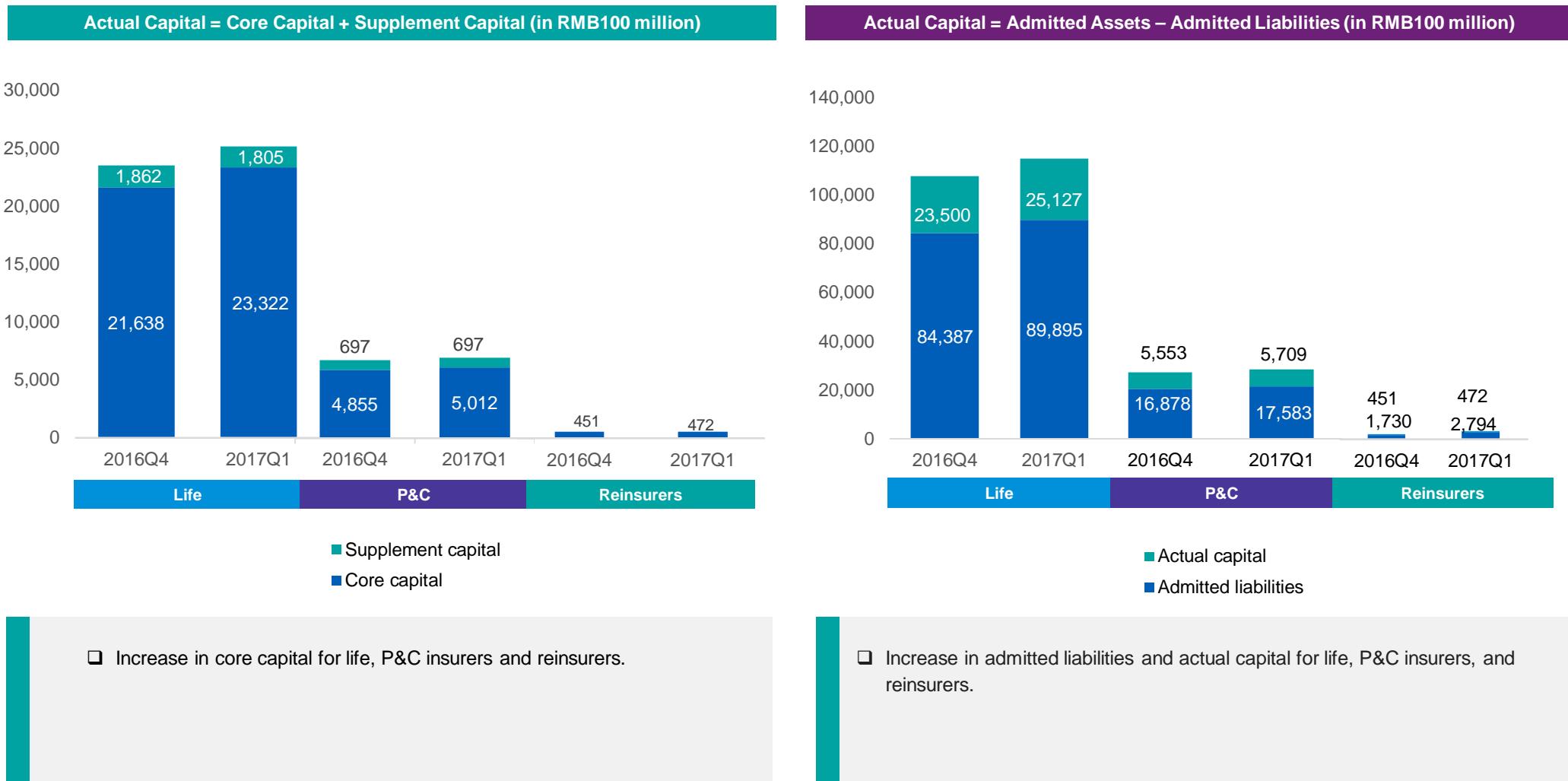
- ❑ The P&C insurance industry's minimum capital structure remained stable in 2017Q1.
- ❑ The percentage of companies deemed as having insurance risk and/or credit risk increased slightly, while that of companies deemed as having market risk decreased slightly.
- ❑ The minimum capital for control risk has been disclosed since 2016Q4.

Minimum capital structure for reinsurers



- Minimum capital structure of reinsurance companies changed in 2017Q1.
- The percentage of companies deemed as having credit risk and/or market risk increased, while that for companies having insurance risk decreased.
- The minimum capital for control risk has been disclosed since 2016Q4.

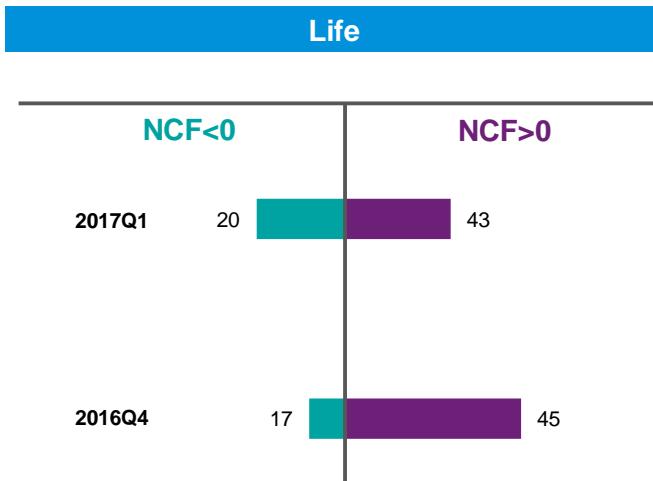
Actual capital structure



Net cash flow (NCF)

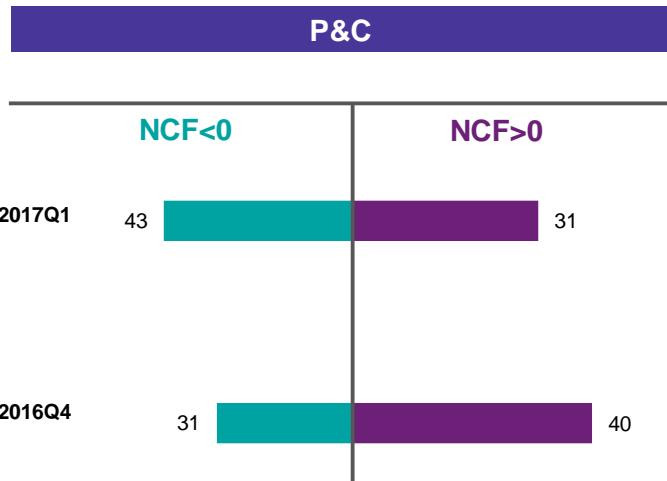
In 2017Q1, life insurers' NCF deteriorated

- 12 companies' NCF became positive while 15 companies' NCF became negative.
- 22 companies' NCF increased while 12 companies' NCF decreased.



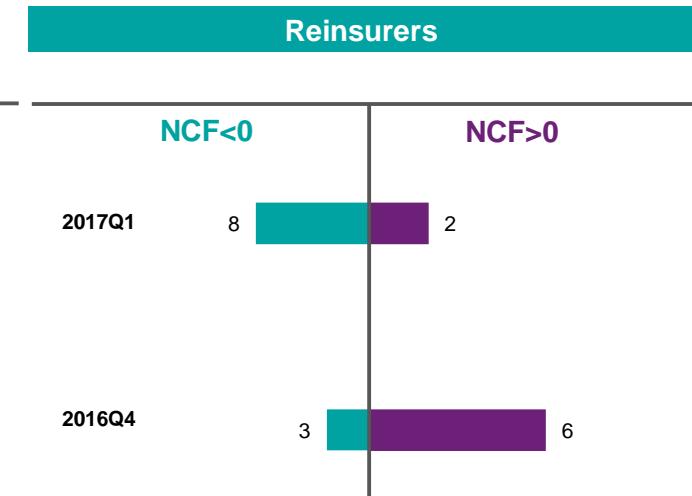
In 2017Q1, P&C insurers' NCF deteriorated

- 12 companies' NCF became positive while 24 companies' NCF became negative.
- 19 companies' NCF increased while 14 companies' NCF decreased.



In 2017Q1, reinsurers' NCF deteriorated

- One company's NCF became positive while five companies' NCF became negative.
- Three companies' NCF increased.



* 2017Q1, no disclosed data for 15 life insurers

* 2016Q4, no disclosed data for 15 life insurers

* 2017Q1, no disclosed data for 7 P&C insurers

* 2016Q4, no disclosed data for 8 P&C insurers

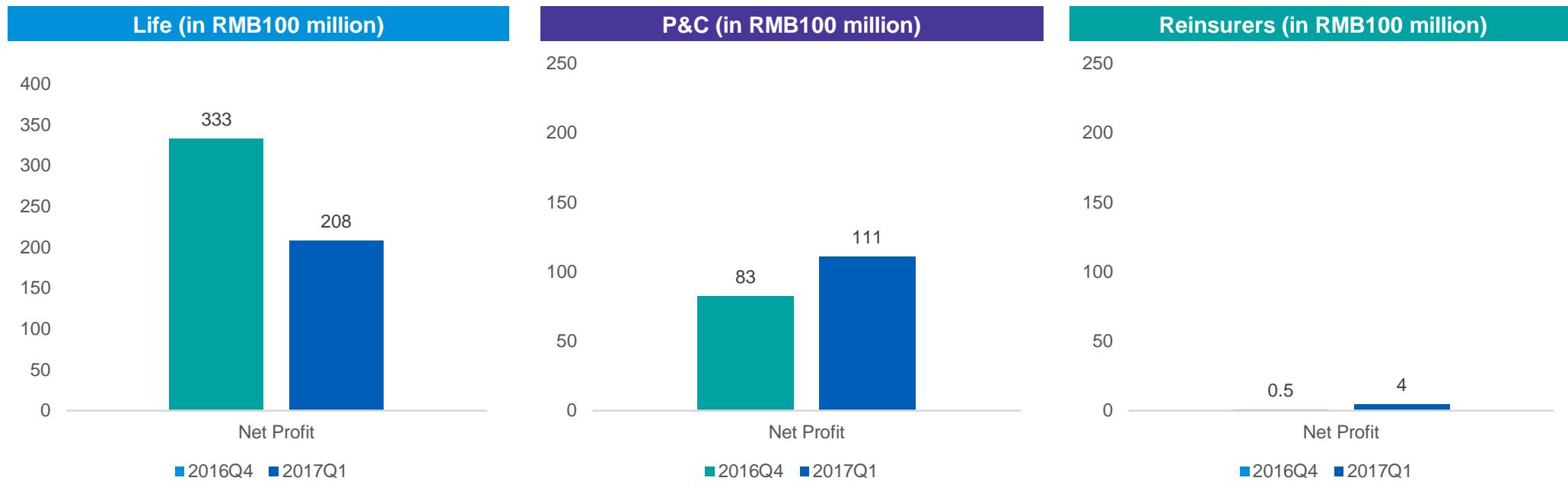
* 2017Q1, no disclosed data for 1 reinsurer

* 2016Q4, no disclosed data for 1 reinsurer

- Measures to improve net cash flow include short-term debt financing, capital injection, reduction in operational expenses and adjustments to investment plan.
- Given the data disclosed by companies may not be on the same basis, we did not perform further analysis on NCF.

C-ROSS 2016Q4 & 2017Q1 Disclosures

Net profit



↗ 31 ↘ 42 ↗ 0

*75 life insurers had disclosed information as at 10 May, 2017

↗ 48 ↘ 28 ↗ 0

*78 P&C insurers had disclosed information as at 10 May, 2017

↗ 5 ↘ 4 ↗ 0

*10 reinsurers had disclosed information as at 10 May, 2017

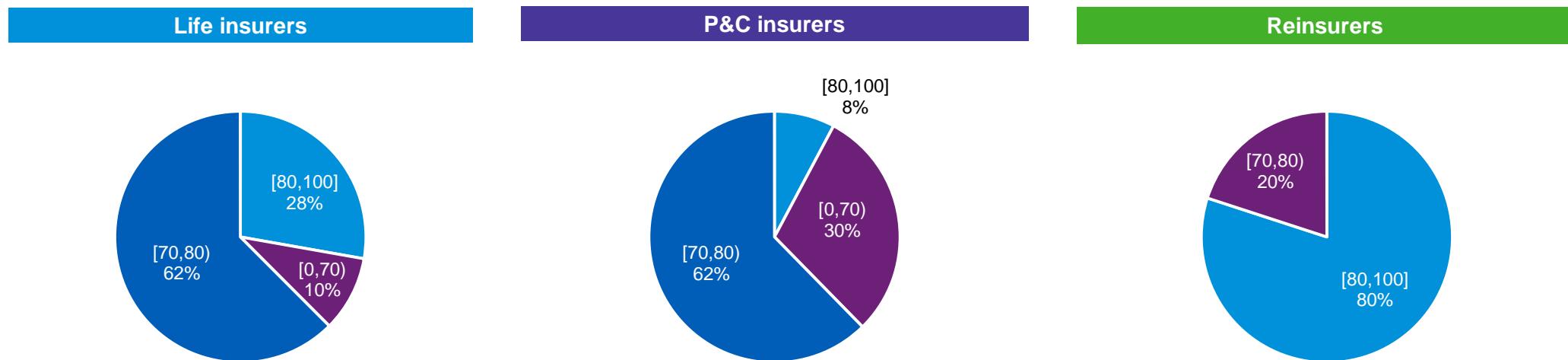
- ❑ The net profit for life insurers decreased by 37.6% compared with 2016Q4.
- ❑ The net profit for P&C insurers increased by 34.0% compared with 2016Q4.
- ❑ The net profit for reinsurers increased in 2017Q1.

2

SARMRA Analysis



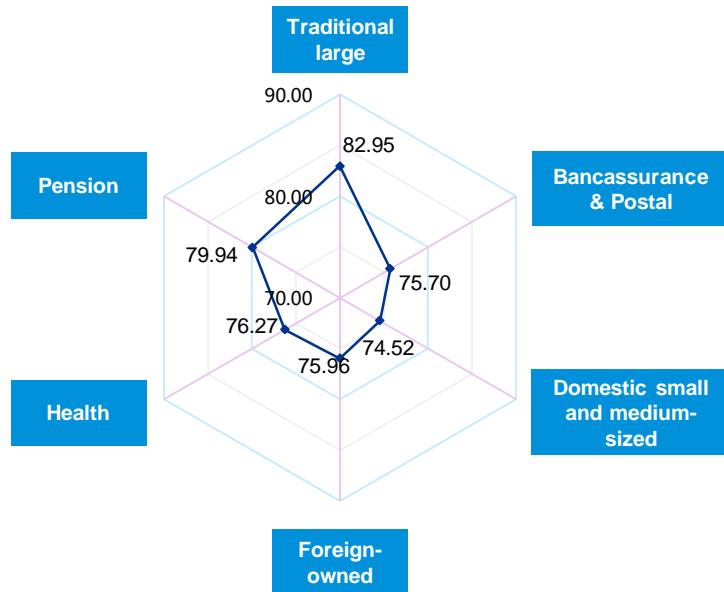
Overview of SARMRA scores



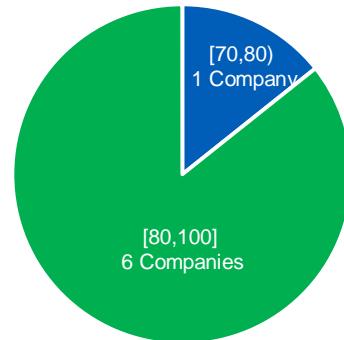
- ❑ In January 2017, after several months' preparation, CIRC released the SARMRA scores to insurance companies for the first time. Overall, reinsurers performed best, followed by life insurers and P&C insurers.
 - Life insurers received an average score of 76.35 and 28% of them reached 80.
 - P&C insurers received an average score of 70.72 and only 8% of them reached 80.
 - Reinsurers received an average score of 82.10 and 80% of them reached 80, the highest among all three categories.
- ❑ It can be seen from the pie charts that a large portion of insurers fell short of 80 in their SARMRA scoring. According to CIRC regulations, control risk for these companies will result in an addition on Minimum Capital requirements, thus decreasing the solvency ratio.

SARMRA analysis - Life insurers (1/3)

Average scores by life insurer type

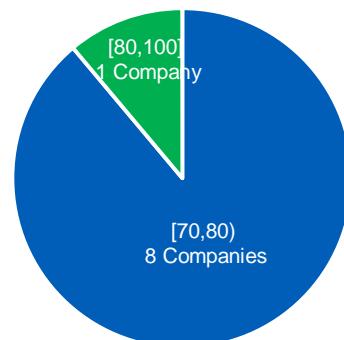


① Traditional large life insurers



- Traditional large life insurers received an average score of 82.95, the highest of all six categories.
- Of the seven companies, six reached 80 in SARMRA scoring. The lowest score was 75.63.
- Well-established policies & processes as well as in-depth risk management experience contributed greatly to the leading position of these traditional large insurers.

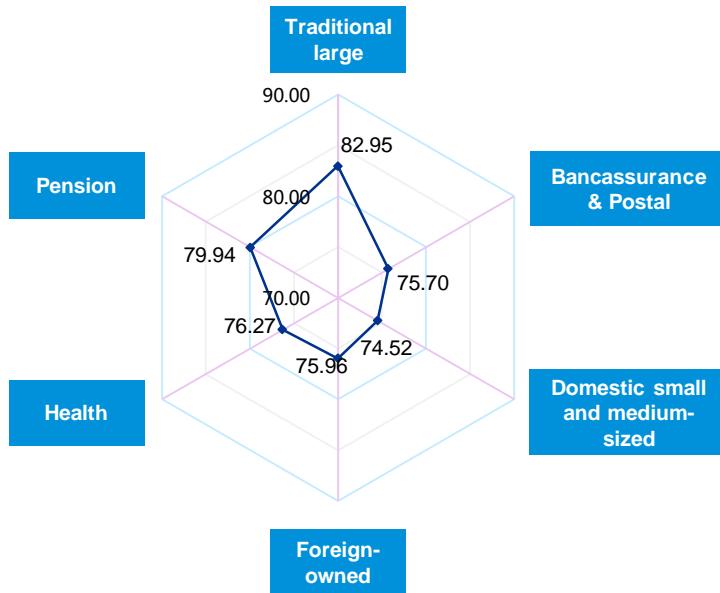
② Bancassurance & Postal life insurers



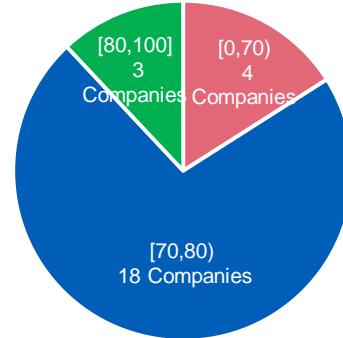
- Bancassurance & Postal life insurers received an average score of 75.70.
- Of the nine insurers, one reached 80 and eight scored between 70 and 80, relatively close to each other.

SARMRA analysis - Life insurers (2/3)

Average scores by life insurer type

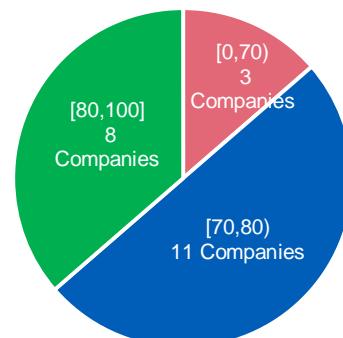


③ Domestic small and medium-sized life insurers



- Domestic small and medium-sized life insurers had an average score of 74.52, the lowest of all six categories.
- 35% (25 companies) of the life insurers are domestic small and medium-sized, which mostly scored between 70 and 80. The lowest score of these companies was 46.05.
- The low average score is partly related to their small scale and lack of experience in risk management.

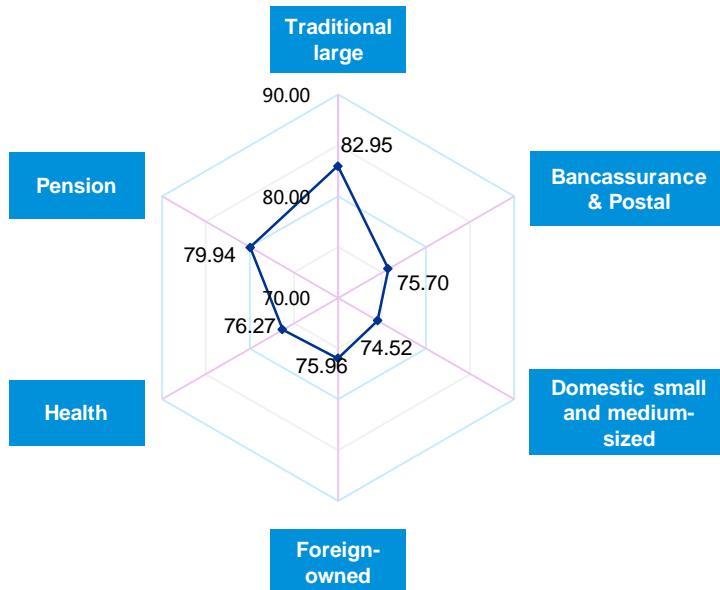
④ Foreign-owned life insurers



- Foreign-owned life insurers received an average score of 75.96, slightly higher than that of domestic ones.
- 31% (22 companies) of the life insurers are foreign-owned. However, one of them had the lowest score 34.74 among all life insurers.
- Their superior performance compared with domestic small and medium-sized insurers is largely attributable to internal support from their foreign group stakeholders.

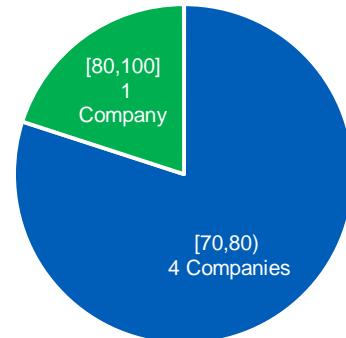
SARMRA analysis - Life insurers (3/3)

Average scores by life insurer type



5

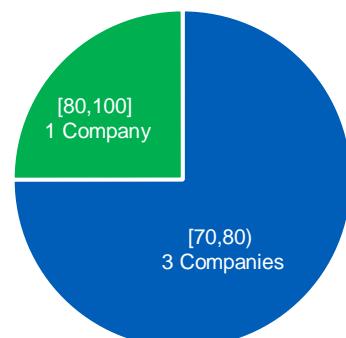
Health insurers



- Health insurers received an average score of 76.27, around the middle level of the industry.
- Respective scores mostly ranged between 70 and 80, with only one scoring above, at 80.04.
- Health insurers are still in their infancy with relatively little experience; respective overall risk management capability needs to be further improved.

6

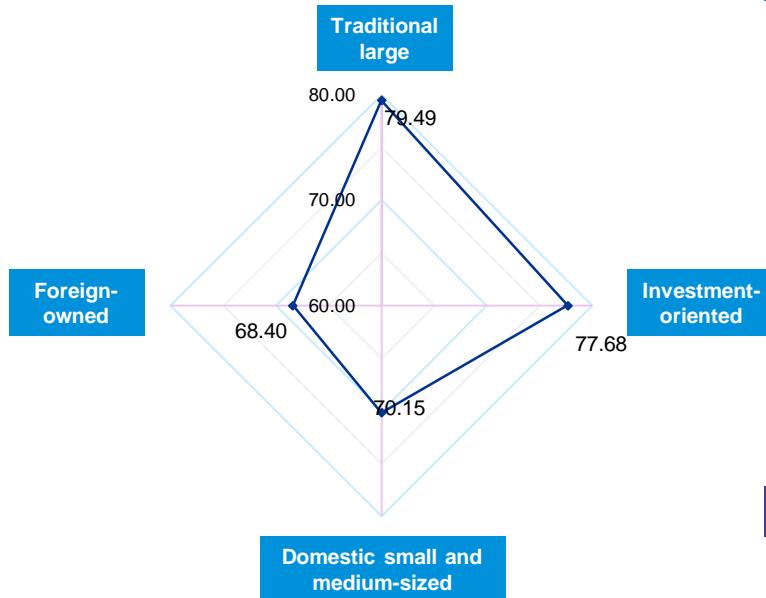
Pension insurers



- Pension insurers received an average score of 79.94, not far behind that of traditional large insurers.
- Scores of pension insurers were all around 80.
- Pension insurers are generally affiliated to large insurance groups, benefitting from their risk management experience and support, thus overall performed well.

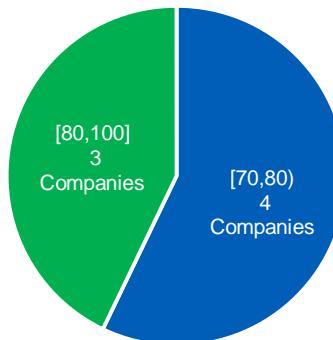
SARMRA analysis - P&C insurers (1/2)

Average scores by P&C insurer type



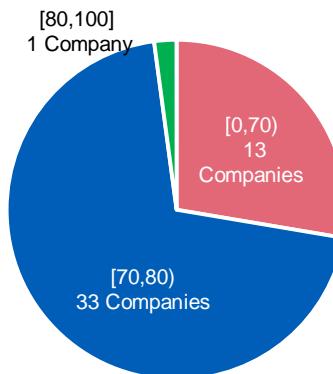
①

Traditional large P&C insurers



②

Domestic small and medium-sized P&C insurers

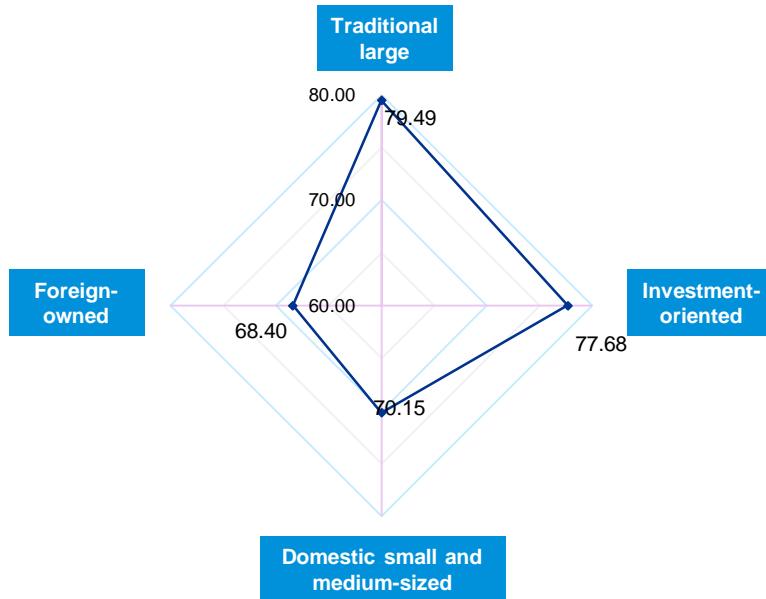


- Traditional large P&C insurers received an average score of 79.49, the highest in the industry.
- Of the seven traditional large P&C insurers, four scored between 70 and 80, and three scored over 80.
- Well-established policies & processes as well as in-depth risk management experience contributed greatly to the leading position of these traditional large insurers.

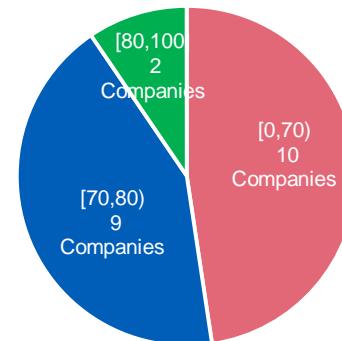
- Domestic small and medium-sized P&C insurers received an average score of 70.15.
- A large portion of the P&C insurers are domestic small and medium-sized. Specifically, 33 of them scored between 70 and 80, while only one scored above 80 and four below 60.
- Their poor performance was attributable to small market scale and delayed start of comprehensive risk management.

SARMRA analysis - P&C insurers (2/2)

Average scores by P&C insurer type

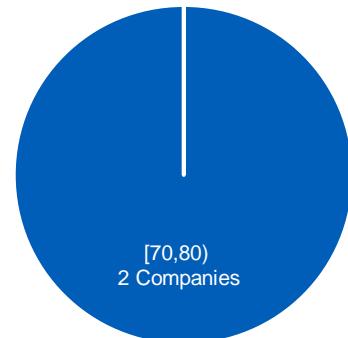


3 Foreign-owned P&C insurers



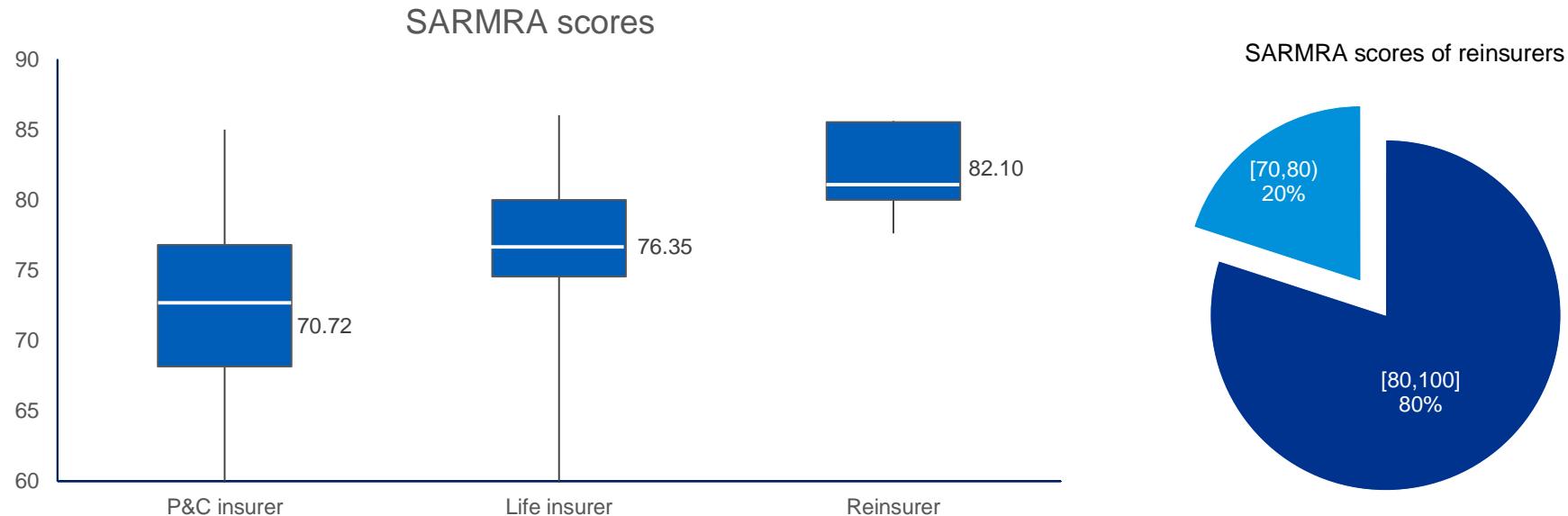
- Foreign-owned P&C insurers received an average score of 68.40, the only category whose score was below 70.
- 27% (21 companies) of the P&C insurers are foreign-owned and half of them scored below 70. Moreover, one of them received a score of 23.55, the lowest among all P&C insurers.
- This may indicate that foreign companies still need to invest more in risk management resources and enhance C-ROSS compliance.

4 Investment-oriented P&C insurers



- There are two investment-oriented P&C insurers; their average score was 77.68.
- Investment-oriented P&C insurers were scored between 75 and 80. Their relatively simple business portfolio makes risk management goals more straightforward. However, investment-oriented business leads to higher capital consumption. Considering CIRC's regulations and restrictions on investment products, these insurers need to pay significant attention to their future business plan and solvency management.

SARMRA analysis - Reinsurers



- ❑ Overall, reinsurers performed best with an average score of 82.1, the only category with an average score greater than 80 among all three insurance categories. Of the 10 reinsurers, eight of them scored over 80 and two between 75 and 80.
- ❑ We believe the high SARMRA scores of reinsurers are heavily related to their effort put into C-ROSS risk management development, as well as the relatively mature risk management capability of the reinsurance industry.

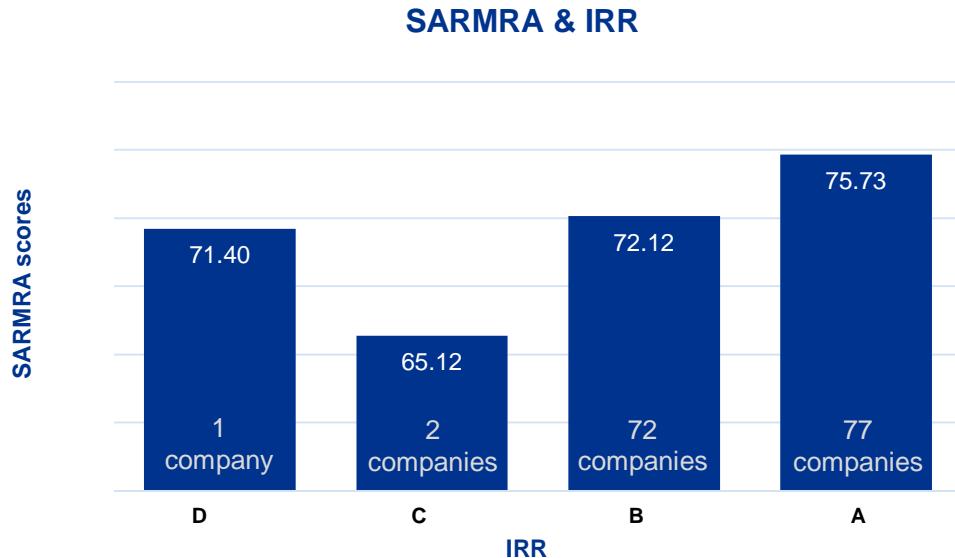
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Correlation analysis of key solvency indicators



SARMRA and IRR

Graph of the industry



- The adjacent chart depicts the relationship between SARMRA scores and integrated risk ratings of insurers in 2016Q4.
- The SARMRA score evaluates companies' solvency risk management capabilities, from perspectives of fundamentals and environment, objective and tools, in addition to seven key risk management capabilities. The integrated risk rating reflects companies' risk level as at evaluation point, and takes into account both comprehensive solvency adequacy ratio and four non-quantifiable risks for an insurer.
- The graph covers 150 insurance and reinsurance companies who have disclosed these two indicators.

Industry analysis

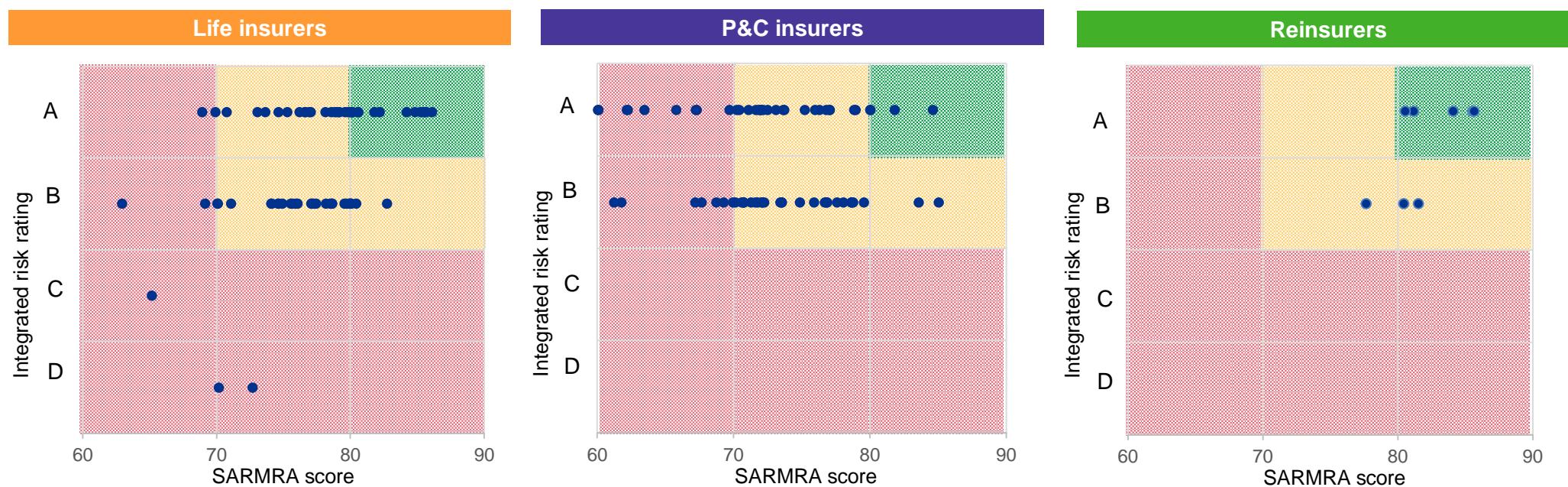
- Generally, we observed weak positive correlation between the SARMRA scores and the integrated risk rating within certain range.

For example, for insurers that were rated A (77 companies) and B (72 companies), we noted the SARMRA scores of A-rated companies were slightly higher than B-rated companies. However, for those rated C and D, we found no correlation between IRR and SARMRA scores given insufficient samples.

SARMRA and IRR (by industry segment)

Overall description

- ❑ The scatter plots below provide an overview of SARMRA scores and IRR of insurers. The plots here only include SARMRA scores in the range of [60-90].
- ❑ The green area distinguishes the companies with SARMRA scores exceeding 80, and having an A rating. Yellow area represents companies with SARMRA score exceeding 70 and with integrated risk rating higher than C (not including green area). Red area contains companies with SARMRA score lower than 70 and with integrated risk rating lower than B.
- ❑ For life insurers and reinsurers, companies rated A received SARMRA scores significantly better than B-rated companies, however, this relationship does not appear significant among P&C insurers.



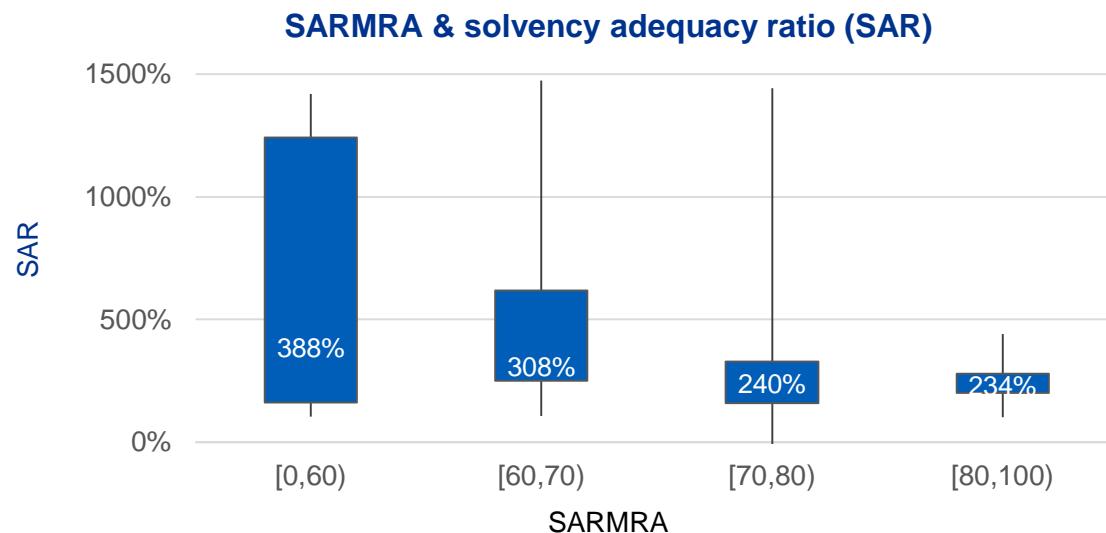
- ❑ 72 life insurance companies disclosed 2016Q4 SARMRA scores and integrated risk rating. The graph above covers 70 companies (97%).
- ❑ 16 companies (22%) fall within the green area, 46 companies (65%) in the yellow area and seven companies (10%) in the red area.

- ❑ 72 P&C insurance companies disclosed 2016Q4 SARMRA scores and integrated risk rating. The graph above covers 67 companies (92%).
- ❑ 4 companies (5%) located in the green area, 47 companies (64%) in the yellow area and 16 companies (22%) in the red area.

- ❑ Nine reinsurance companies disclosed 2016Q4 SARMRA scores and integrated risk rating. The graph above covers all.
- ❑ Six companies (67%) fall within the green area, and three companies (33%) in the yellow area.

SARMRA and solvency adequacy ratio

Graph of the industry



- The adjacent boxplot depicts the distribution as well as the median of the comprehensive solvency adequacy ratios of all insurers in 2017Q1.

Industry analysis

- Generally, there is insufficient evidence to conclude that SARMRA score and solvency ratio are significantly correlated.

For example, the median value of solvency adequacy ratios of the 28 insurers with SARMRA scores between [80-100) was 234%, while that of the 21 insurers whose scores ranged between [60-70) was 308%.

- Further, as SARMRA scores decrease, solvency adequacy ratios in corresponding areas are spread over a wider range.

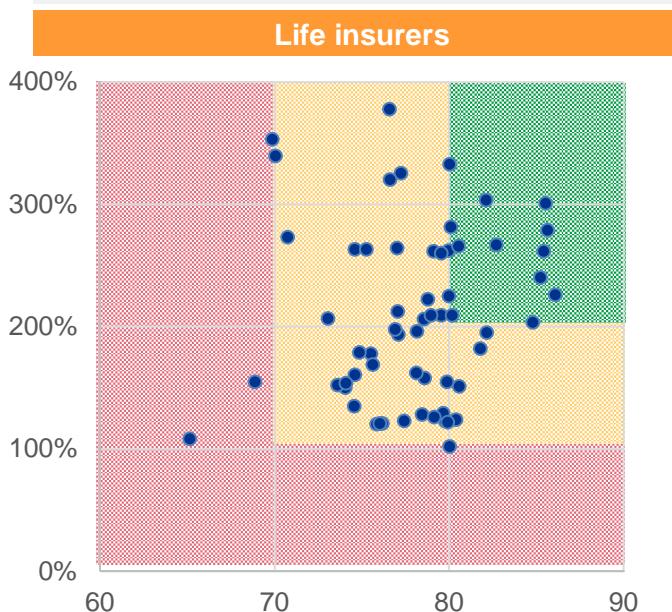
For insurers whose scores ranged between [80-100), half had solvency ratios between [200%-300%. However, for insurers whose scores ranged between [60-70), half had solvency ratios between [250%-700%, a much wider interval.

One possible explanation is that companies may be able to increase their solvency adequacy ratios in a short period of time by different means such as capital injection. However, establishing and improving the company's entire risk management system takes more time. In the meantime, most of the companies with high SARMRA scores are large insurers and reinsurers, whose risk control systems are relatively complete, and whose solvency adequacy ratios and capital utilisation levels are relatively optimised.

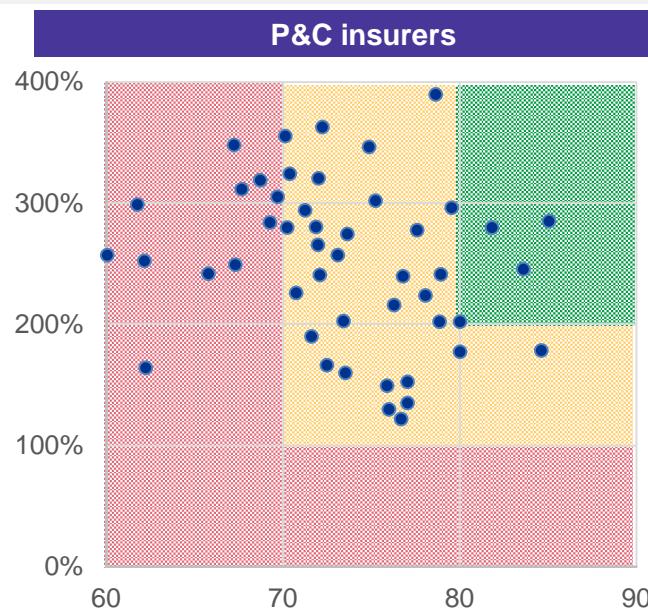
SARMRA and solvency adequacy ratio (by industry segment)

Overall description

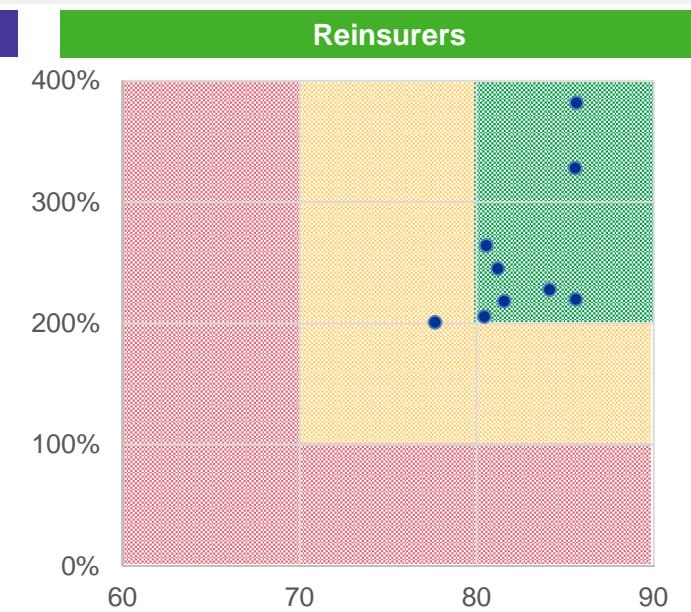
- ❑ The scatter plots below provide an overview of SARMRA scores and SAR of insurers. The plots here only include insurers with solvency adequacy ratios between [0-400%] and SARMRA scores between [60-90].
- ❑ The green area distinguishes the companies with comprehensive solvency adequacy ratios exceeding 200% and SARMRA scores exceeding 80. Yellow area represents companies with a solvency adequacy ratio higher than 100% and SARMRA score higher than 70 (not including green area). Quite a few companies were concentrated towards the lower-left corner of the area, which implies both solvency adequacy and risk management capabilities might have improved; Red area shows companies with SARMRA score lower than 70 and that may need to improve risk management capabilities.



- ❑ 72 life insurance companies disclosed 2017Q1 SARMRA scores; the graph above covers 62 companies (86%).
- ❑ 13 companies (18%) fall within the green area, 46 companies (64%) in the yellow area and three companies (4%) in the red area.



- ❑ 72 P&C insurance companies disclosed 2017Q1 SARMRA scores; the graph above covers 48 companies (67%).
- ❑ Four companies (6%) fall within the green area, 33 companies (46%) in the yellow area and 11 companies (15%) in the red area.



- ❑ Nine reinsurance companies disclosed 2017Q1 SARMRA scores; the graph above covers all these companies.
- ❑ Eight companies (89%) fall within the green area, and one company (11%) in the yellow area.

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Publication number: CN-RCACT16-0001

Publication date: May 2017

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