Preventing and Controlling Financial Risks Focusing on Serving the Real Economy

C-ROSS 2017Q3 & 2017Q2 Disclosures

November 2017

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Contents

Executive summary

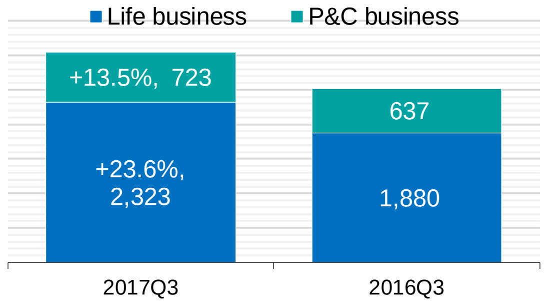
1. Key industry developments

In the first three quarters of 2017, the China insurance industry achieved a total primary premium income of RMB3.0 trillion, with a year-on-year growth rate of 21.0%. Life insurers and Property & Casualty (P&C) insurers achieved a year-on-year growth rate of 23.4% and 14.5%, respectively. Total claim amount was RMB832.7 billion with a year-on-year growth rate of 7.4%. Total insurance industry assets amounted to RMB16.6 trillion by September end, increasing 9.7% compared with that as at 2017 start. As at the third quarter end, total insured amount was RMB2,909.8 trillion, representing a 46.3% increase.

In 2017, six new life insurers, three P&C insurers and one reinsurer began operation.

1. Steady growth of premium income

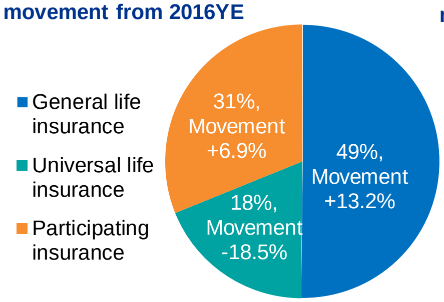
Primary insurance premium income (RMB billion)



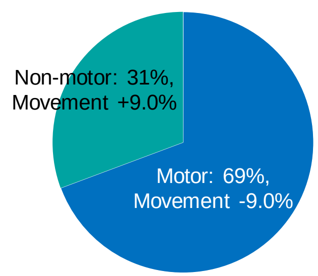
2. A more protection-focused product mix

- For life insurers, protection products with long-term risk management and risk prevention capability increased notably.
- For P&C, premium growth rebounded particularly for non-motor business lines, which are more sensitive to the macro economy.

Total premium of Life business & % movement from 2016YE



Primary premium of P&C business & % movement from 2016YE



3. Improving investment portfolio and investment yields

- The balance of investable funds of the first three quarters was RMB14.6 trillion, increasing 9.4% compared with that as at 2017 start.
- Investment income was RMB581.4 billion with a year-on-year growth rate of 20.4%. The investment return was 4.0%, slightly higher than that of the same period last year.

4. Accelerating application of insurance technology

- Fast deployment of new insurance technology into business and service was apparent.
- Persistence in independent research & development while cooperating with internet enterprises was also evident. Zhong An Online Insurance successfully listed in Hong Kong.

5. Serving the real economy and national development strategy

- The role of insurance grew stronger regarding boosting poverty alleviation, supporting the strategic investment of the "One Belt, One Road" initiative, Yangtze River economic belt and the Beijing-Tianjin-Hebei cooperative development, as well as developing the green industry.

Executive summary

2. Key regulatory developments (1/2)

In the first three quarters of 2017, preventing and controlling financial risks has been the focus for the industry and the China Insurance Regulatory Commission (CIRC), the insurance regulator. The tone from the top is that the insurance industry must focus on serving the real economy and the overall national development strategy.

❖ Corporate governance

CIRC has published a series of regulations on corporate governance, such as "*Notice of the CIRC on Matters Relating to Strengthening Management of Related Party Transactions by Insurance Companies*" and "*Notice of the CIRC on Promulgation of the Measures on Compliance Management of Insurance Companies*". In July, CIRC released the 2nd public consultation on the draft of "*Shareholding Management Rules for Insurance Companies*". Compared with an earlier draft, more emphasis has been placed on 'substance over form' and 'penetrating regulation' in the 2nd version, increasing the difficulty of industry entry.

❖ Insurance products and pricing

Regarding life insurance, CIRC has published a number of regulatory policies, aimed at limiting the sales of short-term, high-cash-value and high-guarantee savings products. In May, CIRC published the "*Notice on standardizing life product design and development*" ('the Notice'), which 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.

In November, CIRC released "*Measures for Administration of Health Insurance (Draft for Comments)*", in which significant changes such as the definition of health insurance, pricing for health insurance product, and standards for sales behaviour by insurance companies are included.

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. In early July, CIRC initiated special inspection on filed insurance products, and another notice to combat certain irregularities in the motor insurance market. In June, CIRC also released two public consultations on measures for administration of Compulsory liability insurance for environmental pollution and Credit & Surety insurance. The most important event in the P&C industry in 2017 has been the second phase of the rate reform for voluntary motor insurance, which will give more freedom to insurers in pricing and continue encouraging market competition.

Executive summary

2. Key regulatory developments (2/2)

❖ Solvency regulation

CIRC released the "*Notice of CIRC on self-examination of authenticity of solvency data*" in June to elicit self-examination on solvency data of insurance companies. In July, CIRC released the "*Notice of launching the 2017 annual SARMRA assessment*" to initiate the 2017 Solvency Aligned Risk Management and Risk Assessment (SARMRA) regulatory assessment.

In September, CIRC released the development plan for the second phase of China Risk Oriented Solvency System (C-ROSS Phase II), i.e., CIRC [2017] No. 67. Twenty-six tasks in three categories (improving regulatory rules, enhancing implementation mechanism, strengthening regulatory cooperation) are included in C-ROSS Phase II. These potential future regulatory changes are expected to have profound impact on the capital & risk management, product and investment strategies, reinsurance, and compliance for the insurance enterprises operating in China. More details can be found on **pages 19-23** of this report.

In October, CIRC released the "*Solvency Regulations of Insurance Companies (Draft for Comments)*". Compared with the current regulation, the draft has six main features: 1) further clarification on the C-ROSS regulatory framework; 2) re-positioning of local CIRC bureau's responsibility in the solvency regulation; 3) clarifying the regulatory indicators of C-ROSS; 4) establishment of multidimensional and hierarchical regulatory measures; 5) establishment of off-site and on-site inspection mechanism of solvency data; and 6) strengthening the cooperation and coordination among regulators.

❖ Asset-liability management (ALM)

In early July 2017, the annual meeting on asset liability management of the China Insurance Industry was held with the theme of "Serving the real economy, Power supply side reform". Shortly after this, CIRC released a notice regarding public consultation on ALM regulations for the insurance industry and launched the industry quantitative testing.

❖ Consumer protection

In late November, CIRC released the result of the 2017 service quality assessment on all insurance companies with more than 3 years of operating history as at 31 December 2016 regarding their consumer service quality during 2016 (pension companies, agricultural insurers, health insurers, and policy-oriented insurers were not included in the assessment). Based on eight types of quantitative service quality indicators as well as adjustments for significant service innovations or negative media events, insurers are rated A, B, C, or D (sub-ratings include AAA, AA, A, BBB, BB, B, CCC, CC, C, D). Of the 59 life insurers, 11 were rated as A (18.6%), 35 were rated B (59.3%), 12 were rated C (20.3%), and one was rated D (1.7%). For the 58 P&C insurers, 10 were rated as A (17.2%), 38 were rated B (65.5%), and 10 were rated C (17.2%).

❖ Serving the real economy

CIRC released the "*Guiding Opinions of the CIRC on Serving the Construction of 'One Belt, One Road' Initiative by the Insurance Industry*" in April, "*Guiding Opinions on Serving the development of Real Economy*" in May, and the "*Notice of the CIRC on Further Implementing the Policies and Guidelines concerning the Removal of Non-capital Functions out of Beijing*" in June, all of which encourage the insurance industry to better serve the real economy. CIRC also released regulations in May to help channel insurance funds into the real economy.

Many insurers, especially the large entities, have shifted their development focus to enhance their roles in serving the national strategy and the real economy, such as poverty alleviation, supporting the strategic investment related to the "One Belt, One Road" initiative, supporting the Yangtze River economic belt and the Beijing-Tianjin-Hebei cooperative, as well as the green bond initiative.

Executive summary

3. Solvency summary (1/2)

Data source and explanations

As at 15 November 2017, 74 life insurance companies (of 81 in total), 80 P&C insurance companies (of 82 in total) and 12 reinsurance companies (of 12 in total, including Lloyd's China, which is registered as a direct insurer but primarily conducts reinsurance business) had disclosed their 2017 third 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.

Integrated risk rating (IRR)

As at 15 November 2017, 164 insurance companies had disclosed their C-ROSS IRR, of which 98 were rated A, 61 were rated B, two were rated C, and three were rated D. Companies rated A and B (lower risk levels) accounted for 97.0%. Compared with the prior quarter, 12 companies were downgraded, while 17 were upgraded. **Please see page 8.**

- **Life insurance companies:** Forty were rated A, 29 were rated B, one was rated C, and two were rated D. Compared with the prior quarter, six companies were downgraded, while five companies were upgraded.
- **P&C insurance companies:** Fifty-one were rated A, 27 were rated B, one was rated C, and one was rated D. Compared with the prior quarter, six companies were downgraded, while 12 companies were upgraded.
- **Reinsurance companies:** Seven were rated A, and five were rated B. IRR of reinsurance companies was the same as the prior quarter.

Actual capital, minimum capital and comprehensive/core solvency surplus

Overall, the key solvency indicators improved from 2017Q2. In 2017Q3, actual/core capital was RMB3.24 trillion/3.06 trillion, an increase of 4.2%/4.7%; minimum capital was RMB1.34 trillion, an increase of 4.2%; comprehensive/core solvency surplus was RMB1.90 trillion/1.72 trillion, an increase of 4.3%/5.1%.

- **Life insurance companies:** Key solvency indicators improved from the prior quarter.
- **P&C insurance companies:** Key solvency indicators improved from the prior quarter.
- **Reinsurance companies:** Key solvency indicators (except minimum capital) fell compared with the prior quarter.

Executive summary

3. 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 2017Q3 exceeded 200%. Two life insurance companies had serious solvency issues. Compared with the prior quarter, the comprehensive/core solvency adequacy ratios basically kept stable.

- **Life insurance companies:** The solvency adequacy ratio increased slightly, with the comprehensive solvency adequacy ratio increasing from 239.7% the prior quarter to 240.1%, and the core solvency adequacy ratio increasing from 228.3% to 229.6%.
- **P&C insurance companies:** The comprehensive solvency adequacy ratio fell slightly, from 255.2% the prior quarter to 254.2%, and the core solvency adequacy ratio increased slightly, from 224.6% to 225.8%.
- **Reinsurance companies**: The solvency adequacy ratio fell, with the core/comprehensive adequacy ratios falling from 230.3% the prior quarter to 226.9%.

Minimum capital structure

The minimum capital structure for the whole industry remained stable. **Please see pages 13-15.**

- **Life insurance companies:** Percentage of minimum capital structure basically kept stable.
- **P&C insurance companies:** Percentage deemed facing insurance risk fell slightly, while that of market risk increased slightly.
- **Reinsurance companies:** Percentage deemed carrying insurance risk fell, while that of market and/or credit risk increased.

Net cash flow (NCF)

Compared with the prior quarter, NCF of the insurance industry deteriorated in 2017Q3. Companies with negative NCF increased to 79 from 66 the prior quarter. Companies with positive NCF fell to 74 from 87 the prior quarter. **Please see page 17.**

Net profit

The total net profit of China's insurance industry in 2017Q3 was RMB49.6 billion, up 30.0% from the prior quarter. **Please see page 18.**

- **Life insurance companies:** Profitability of life insurers improved, with net profit at RMB38.0 billion, up 66.4% from the prior quarter.
- **P&C insurance companies:** Profitability of P&C insurers deteriorated, with net profit at RMB11.7 billion, down 20.1% from the prior quarter.
- **Reinsurance companies:** Reinsurers had negative profit in 2017Q3, with net loss at RMB0.12 billion.

Solvency regulation indicators

According to the "*Solvency Regulations of Insurance Companies (Draft for Comments)*" recently released by CIRC, the solvency regulation indicators will be an organic connection of Core solvency adequacy ratio (no less than 50%), Comprehensive solvency adequacy ratio (no less than 100%) and IRR (A or B). If any of the three indicators is not met, an insurance company will be considered non-compliant and subject to regulatory penalties.

Based on the criteria, five insurers (three life insurers and two P&C insurers) were non-compliant in 2017Q3, which only takes up 3.3% of insurers who disclosed all three indicators.

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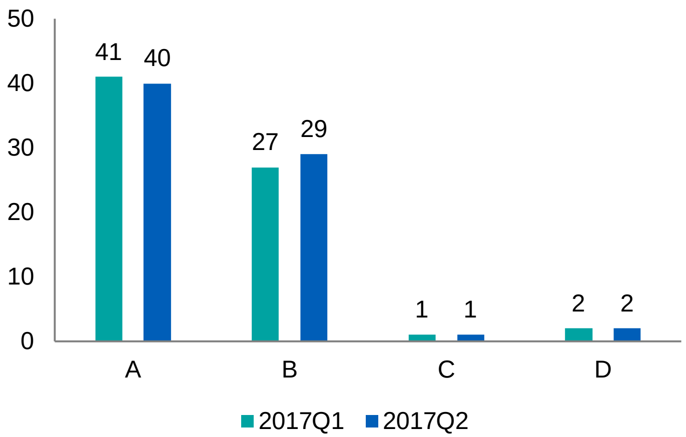
Industry solvency analysis

Integrated risk rating

- One hundred and sixty-four companies had disclosed 2017Q2 C-ROSS IRR in their 2017Q3 CROSS quarterly report as at 15 November 2017.
- For most insurance companies, the ratings under C-ROSS remained stable compared with the prior quarter.
- For life insurance, five companies were upgraded while six companies were downgraded. For P&C insurance, 12 companies were upgraded while six companies were downgraded. Seven reinsurance companies received A ratings and five received B ratings, same as the prior quarter.

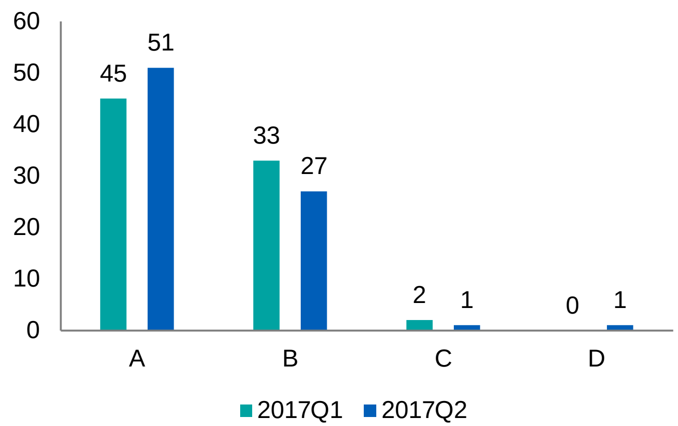
Life



*Nine life insurers did not disclose IRR in 2017Q2
*Ten life insurers did not disclose IRR in 2017Q1

- One insurance company was rated C, and two were rated D.
- One insurance company was downgraded from B to C.
- One insurance company was downgraded from A to D.

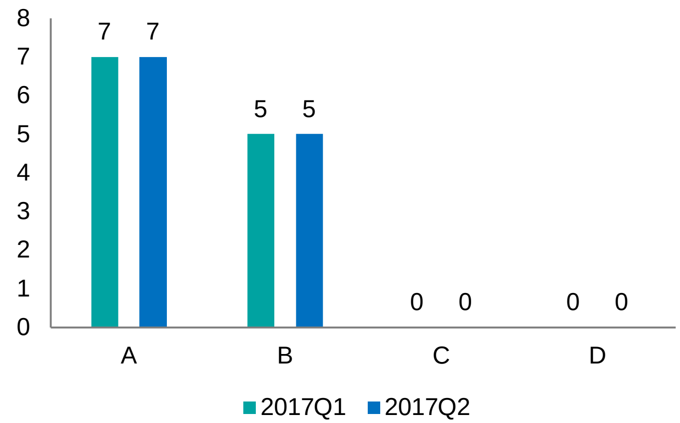
P&C



*Two P&C insurers did not disclose IRR in 2017Q2
*Two P&C insurers did not disclose IRR in 2017Q1

- One insurance company was rated C, and one was rated D.
- One insurance company was downgraded from A to D.
- One insurance company was downgraded from A to C.

Reinsurance



- All reinsurance companies were rated A or B.

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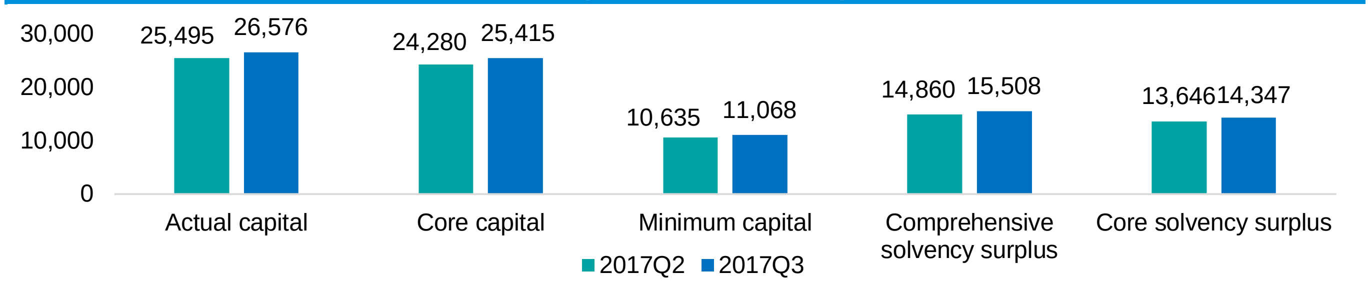
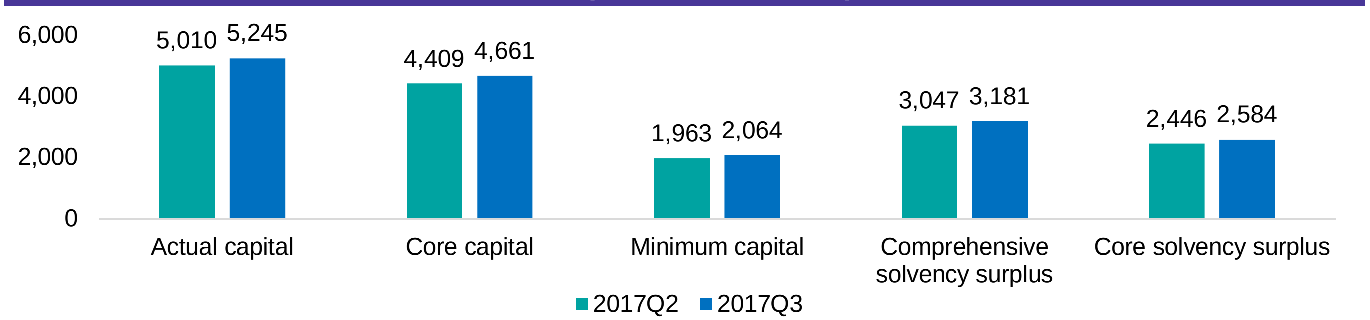
Key solvency indicators

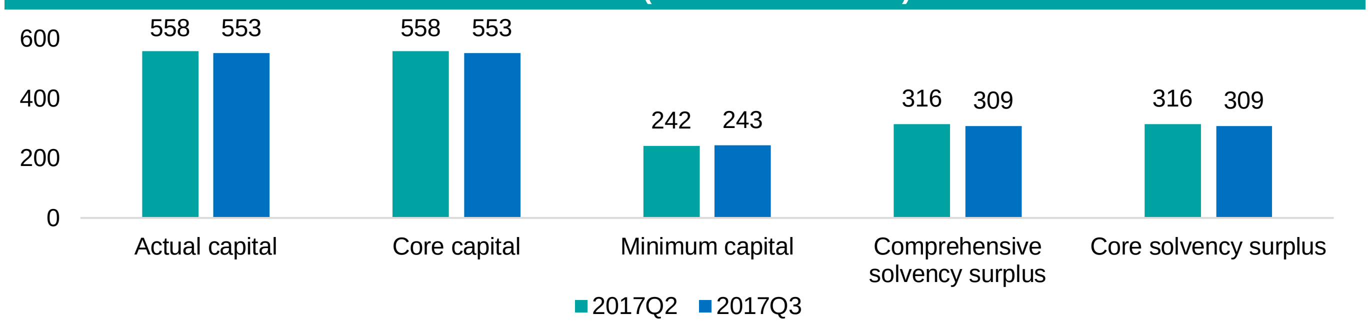
Life (in RMB100 million)



P&C (in RMB100 million)



Reinsurance (in RMB100 million)



- The life insurers' key solvency indicators increased from 2017Q2 to 2017Q3.

*Seventy-four life insurers had disclosed information as at 15 November 2017

- The P&C insurers' key solvency indicators increased from 2017Q2 to 2017Q3.

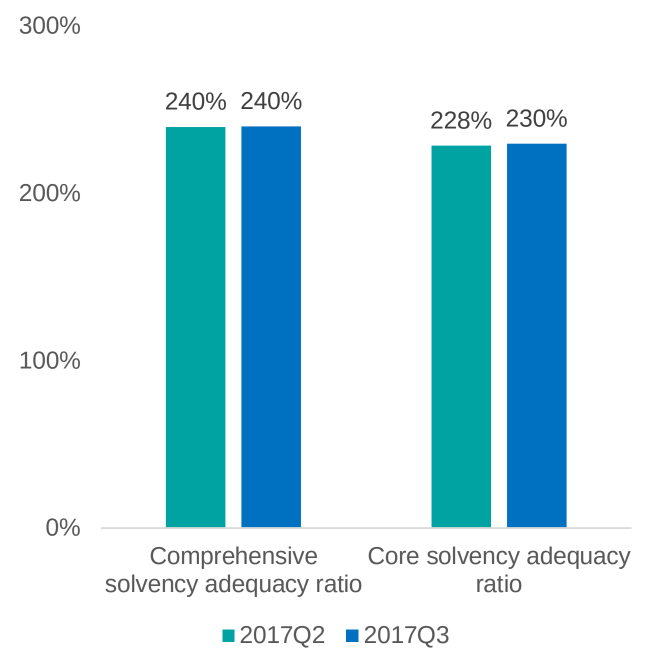
*Eighty P&C insurers had disclosed information as at 15 November 2017

- Except for minimum capital, the key solvency indicators for reinsurers fell from 2017Q2 to 2017Q3.

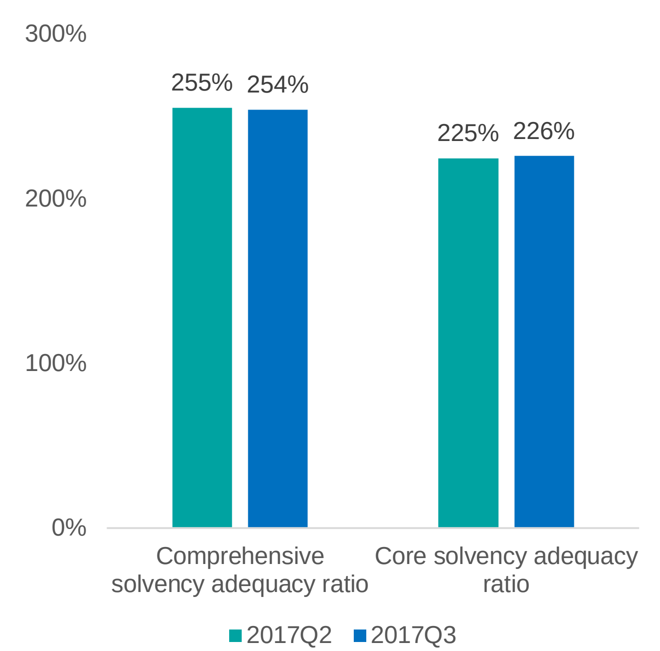
*Twelve reinsurers had disclosed information as at 15 November 2017

Industry solvency adequacy ratio

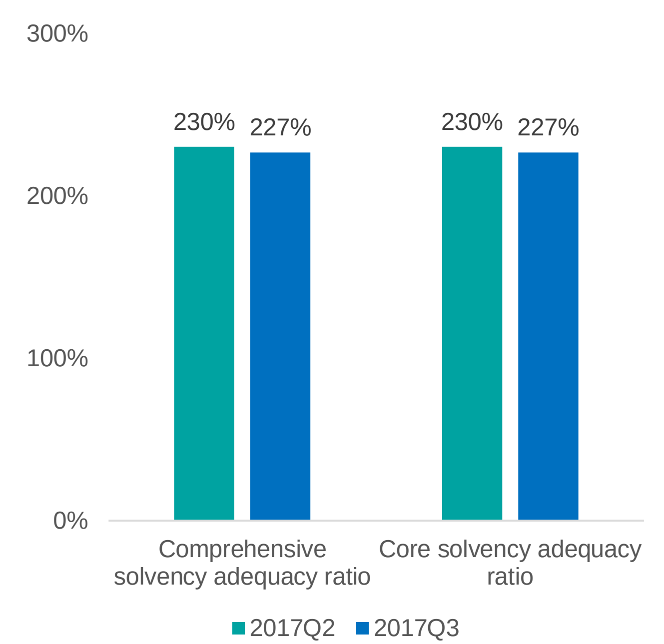
Life



P&C



Reinsurance



*Seventy-four life insurers, eighty P&C insurers and twelve reinsurers had disclosed information as at 15 November 2017.

Overall, solvency ratio of the whole industry remains adequate, at over 200%. Compared with the prior quarter:

- ❑ Life insurers: No remarkable change of comprehensive solvency ratio transpired; core solvency ratio increased slightly.
- ❑ P&C insurers’ comprehensive solvency ratio fell slightly, while core solvency ratio increased slightly.
- ❑ Reinsurers’ solvency ratio exhibited a drop from 2017Q2 to 2017Q3.

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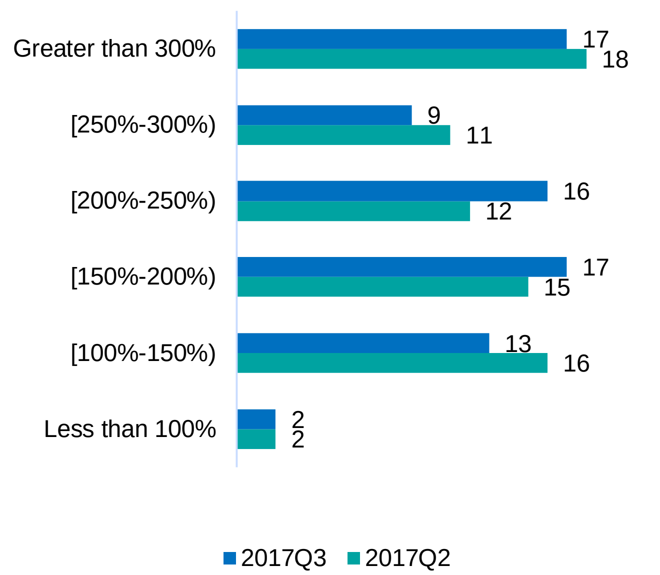
Comprehensive solvency adequacy ratio

Life



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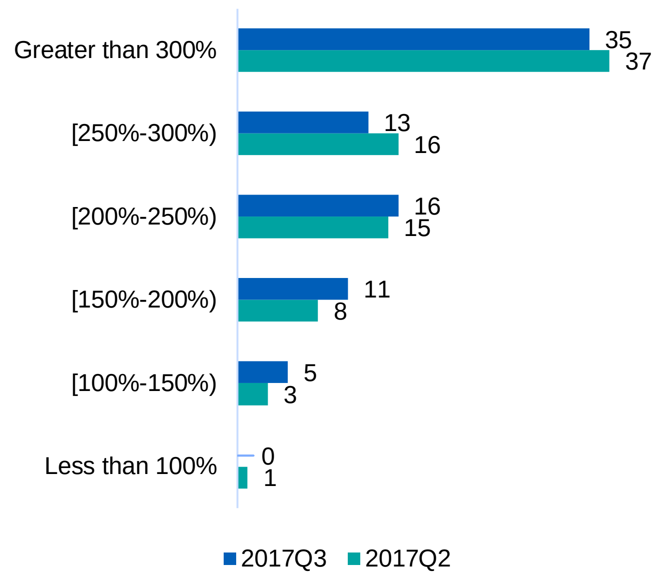
*Seventy-four life insurers had disclosed information as at 15 November 2017

P&C



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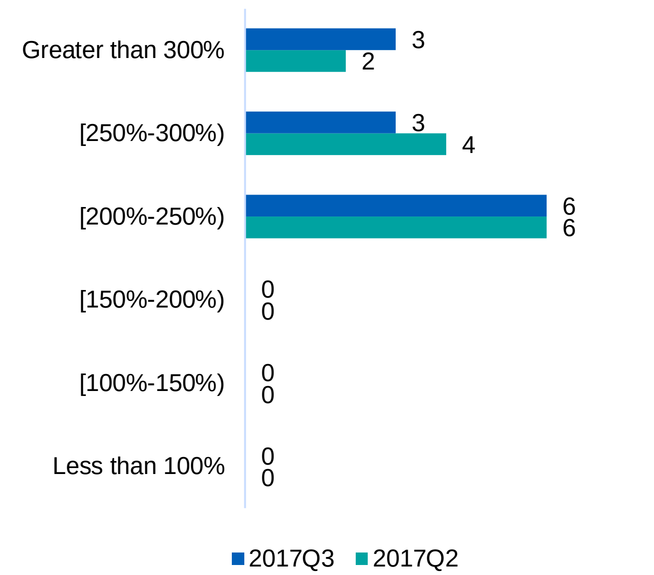
*Eighty P&C insurers had disclosed information as at 15 November 2017

Reinsurance



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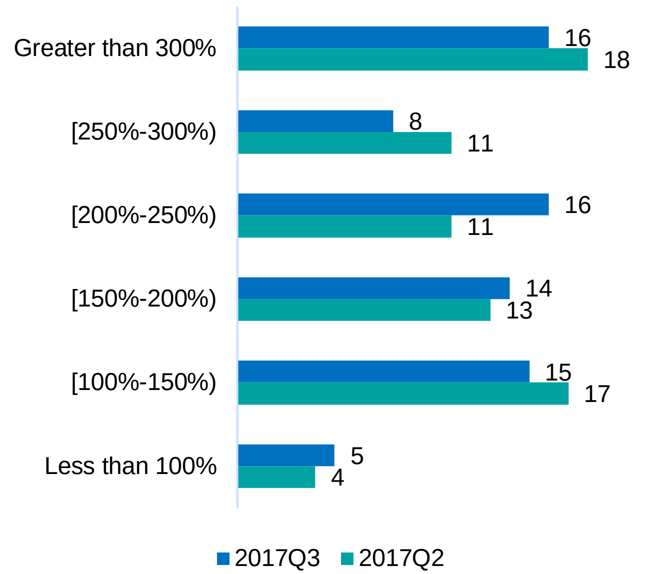
*Twelve reinsurers had disclosed information as at 15 November 2017

❑ Most companies' comprehensive solvency ratios decreased in 2017Q3. Two life insurers' comprehensive solvency ratios were negative.

Core solvency adequacy ratio

Life



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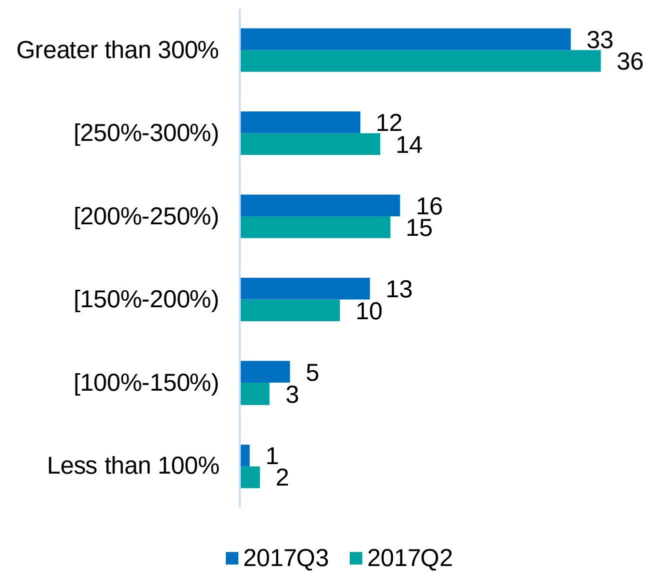
*Seventy-four life insurers had disclosed information as at 15 November 2017

P&C



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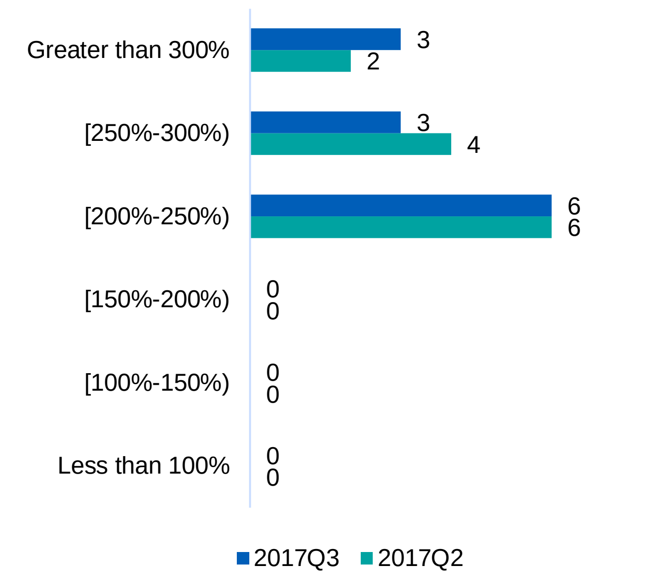
*Eighty P&C insurers had disclosed information as at 15 November 2017

Reinsurance



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*Twelve reinsurers had disclosed information as at 15 November 2017

- ❑ Only core capital is considered in the core solvency adequacy ratio calculation as opposed to the comprehensive solvency adequacy ratio which also takes supplemental capital into account.
- ❑ The changes in the 2017Q3 core solvency adequacy ratio were similar to the changes in the comprehensive solvency adequacy ratio.

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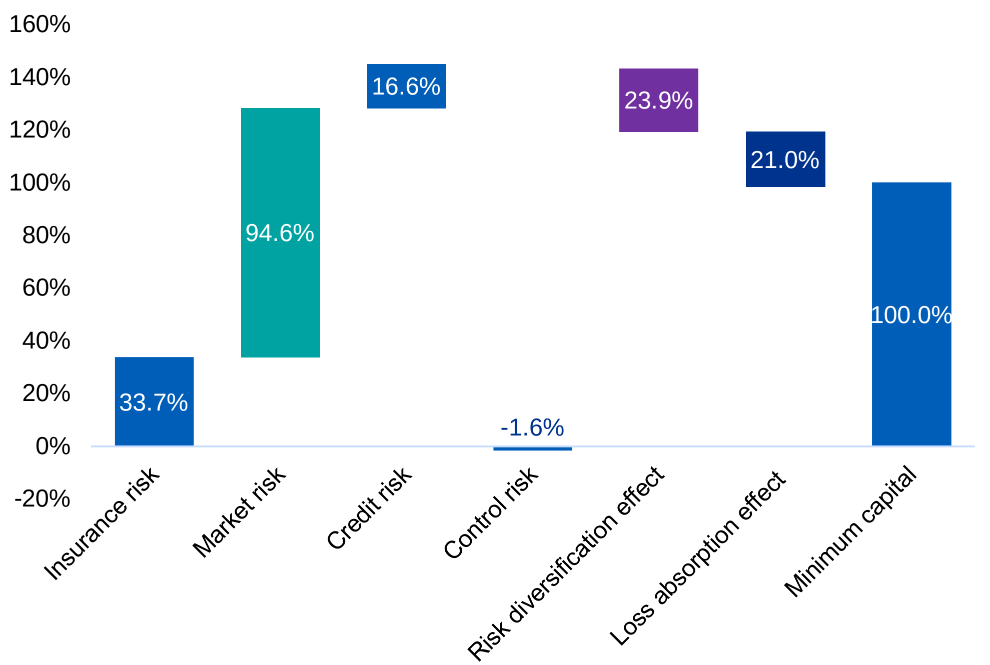
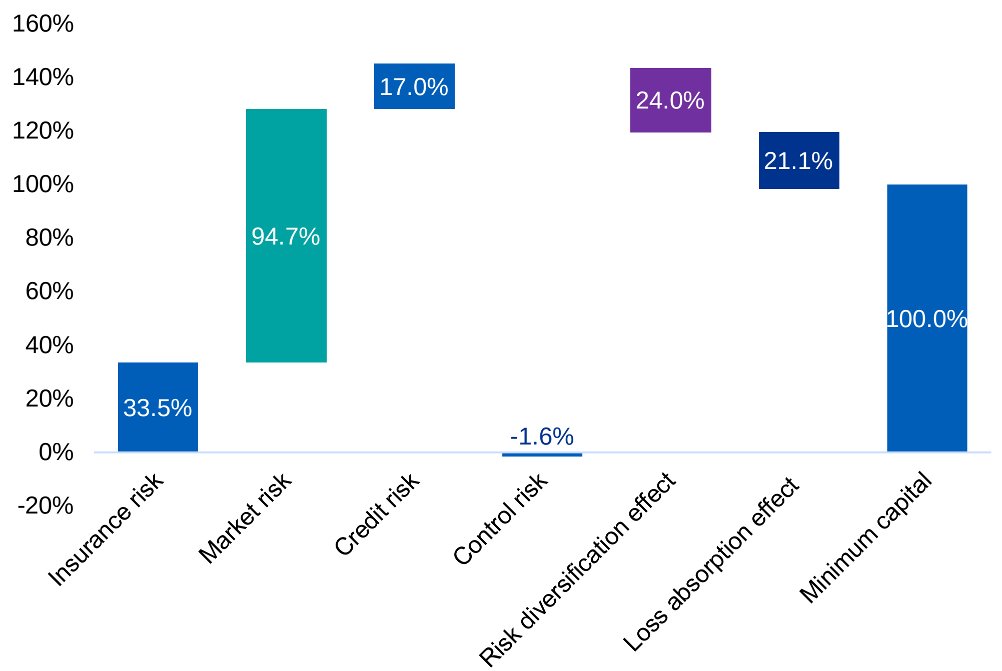
Minimum capital structure for life insurance companies

2017Q3



2017Q2

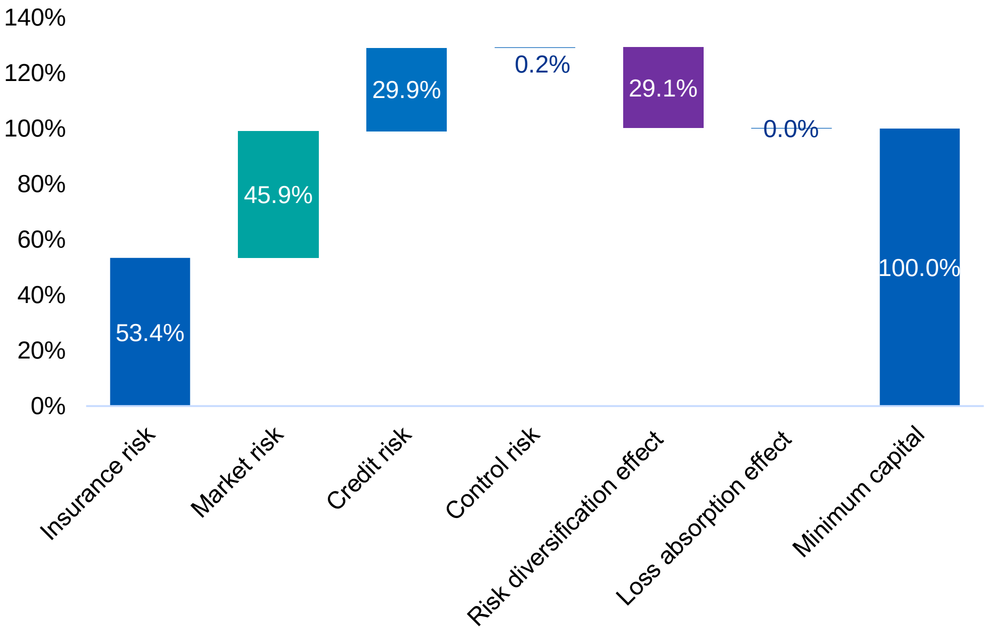


*Data disclosed by small and medium-sized companies may not be complete, though this should not materially affect overall result.

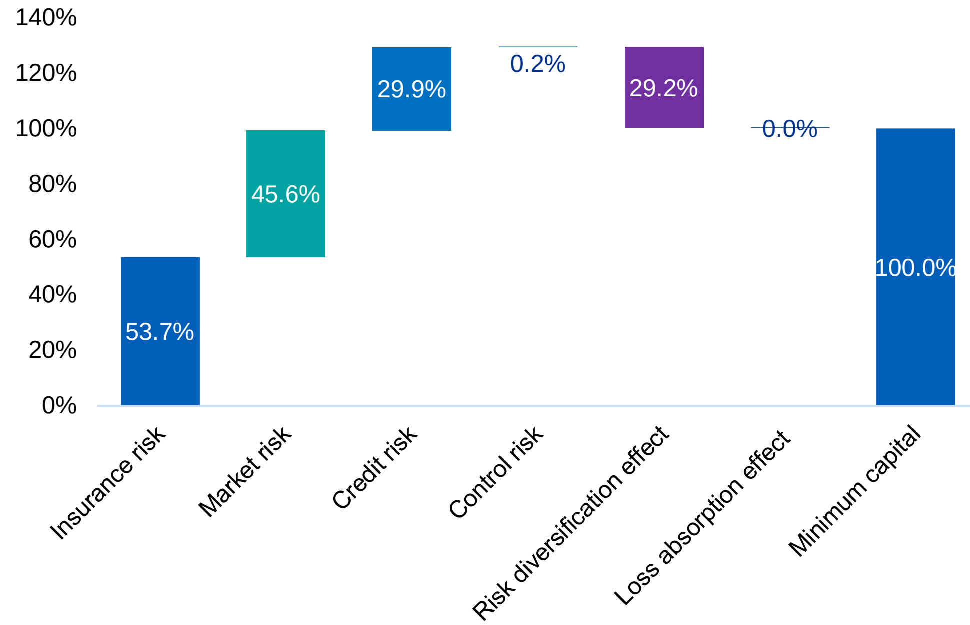
- Minimum capital structure of life insurance companies remained stable in 2017Q3.

Minimum capital structure for P&C insurance companies

2017Q3



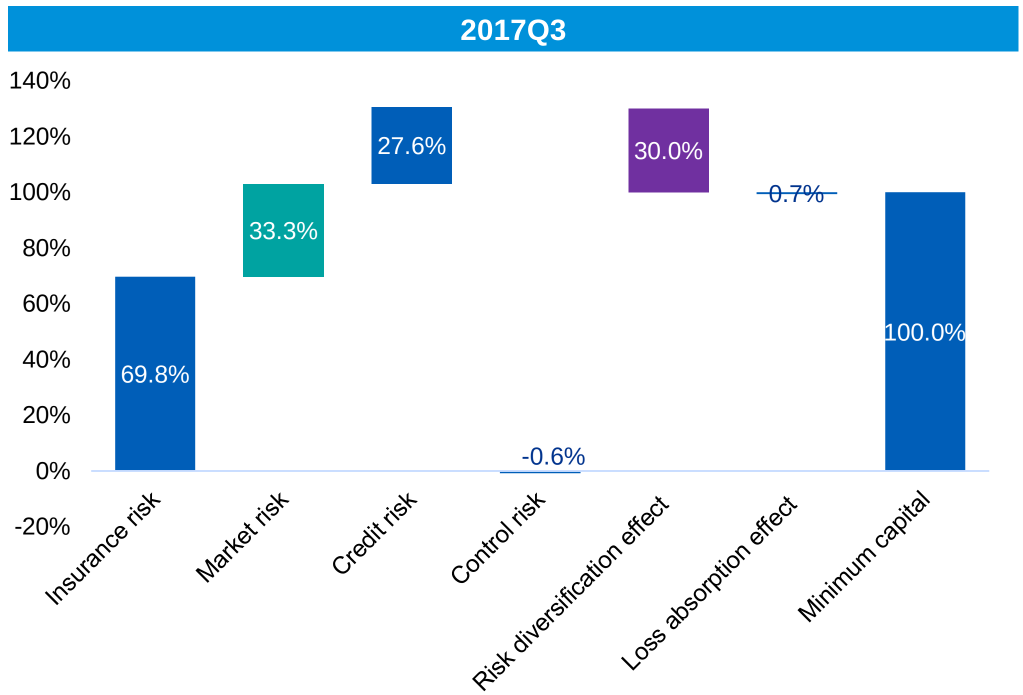
2017Q2

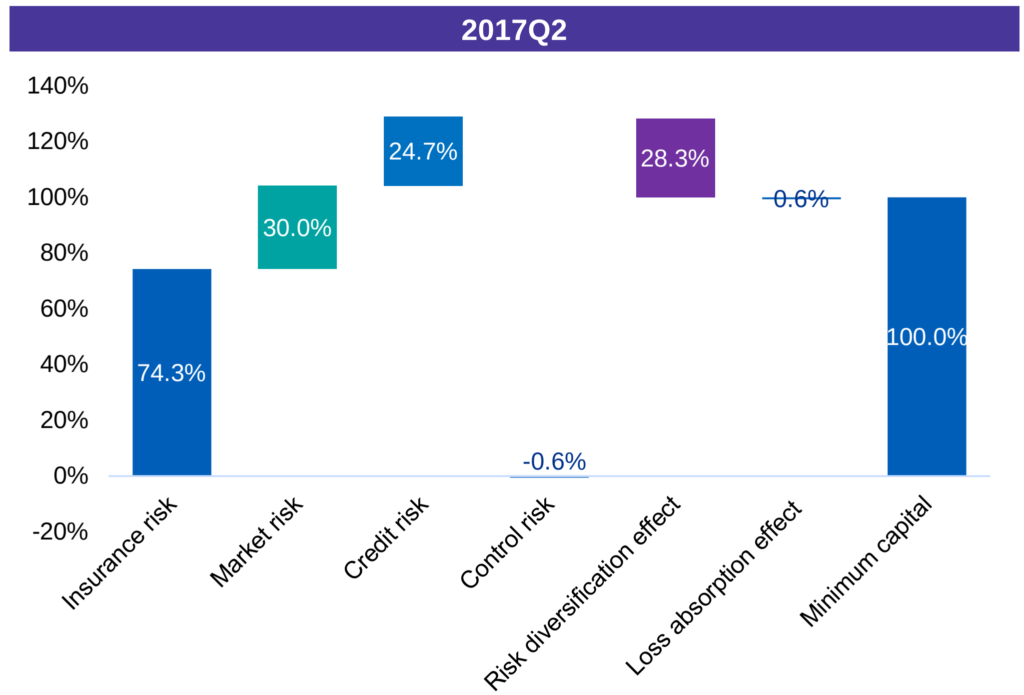


*Data disclosed by small and medium-sized companies may not be complete, though this should not materially affect overall result.

- The P&C insurance industry's minimum capital structure changed only marginally.
- The percentage of companies deemed as having market risk increased slightly, while that of companies deemed as having insurance risk decreased slightly.

Minimum capital structure for reinsurers





- Minimum capital structure of reinsurance companies changed in 2017Q3.
- The percentage of companies deemed as having credit risk and market risk increased, while that for companies having insurance risk decreased.

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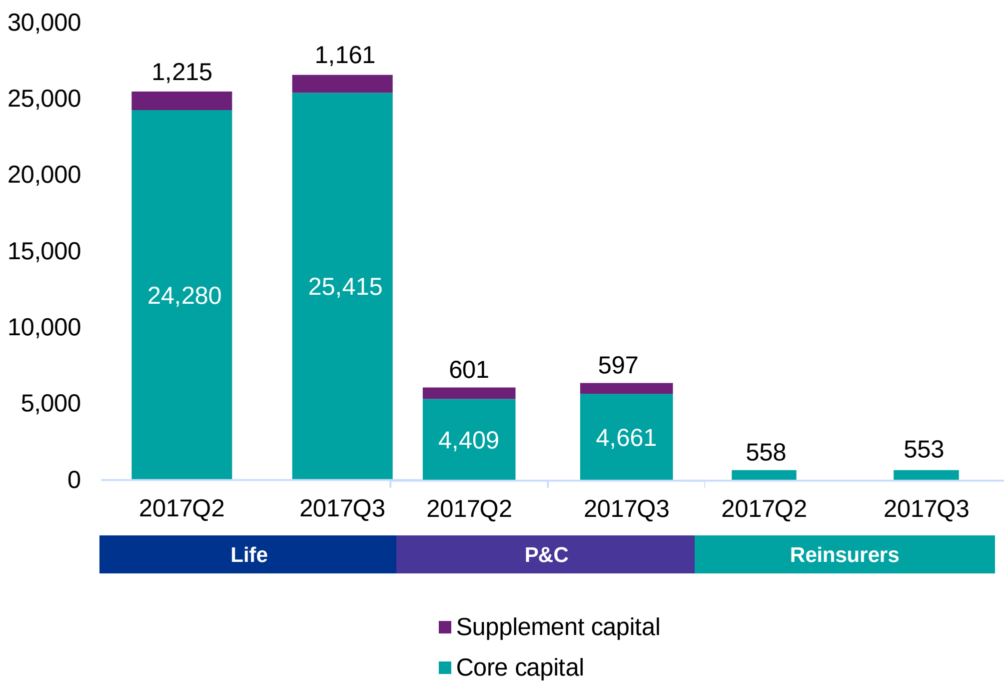
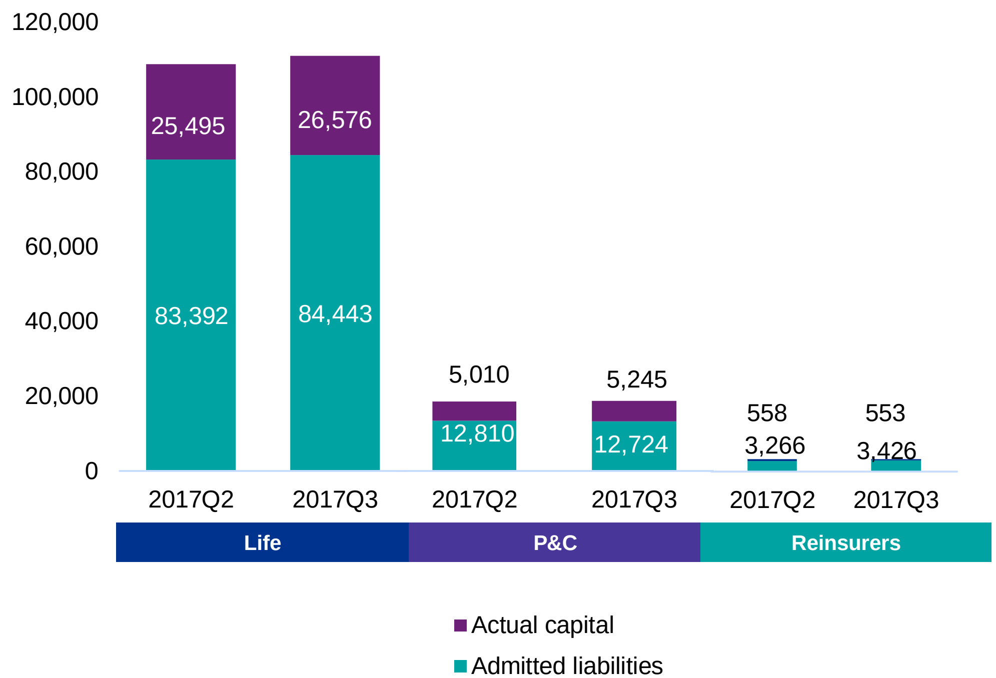
Actual capital structure

Actual Capital = Core Capital + Supplement Capital (in RMB100 million)



Actual Capital = Admitted Assets – Admitted Liabilities (in RMB100 million)



- ❑ Percentage of core capital for life and P&C insurers increased.
- ❑ Percentage of core capital for reinsurers fell slightly.

- ❑ Admitted assets, admitted liabilities and actual capital for life insurers increased.
- ❑ For P&C insurers, admitted assets increased slightly, with a slight decrease in admitted liabilities and increase in actual capital.
- ❑ Admitted assets and admitted liabilities increased for reinsurers, with a decrease in actual capital.

Net cash flow (NCF)

In 2017Q3, life insurers' NCF **improved**

- ❑ Thirteen companies' NCF became positive while 12 companies' NCF became negative.
- ❑ Twenty-one companies' NCF increased while 19 companies' NCF decreased.

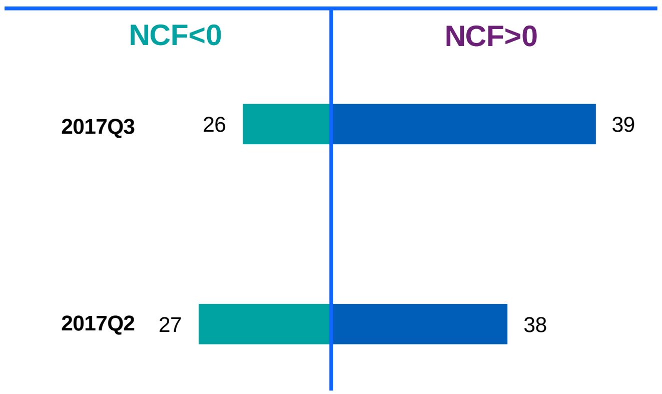
In 2017Q3, P&C insurers' NCF **deteriorated**

- ❑ Twelve companies' NCF became positive while 23 companies' NCF became negative.
- ❑ Twenty companies' NCF increased while 20 companies' NCF decreased.

In 2017Q3, reinsurers' NCF **deteriorated**

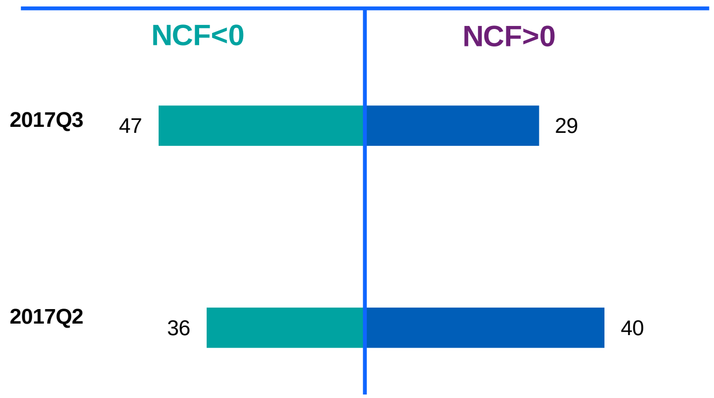
- ❑ Two company's NCF became positive while five companies' NCF became negative.
- ❑ Three companies' NCF increased while two companies' NCF decreased.

Life



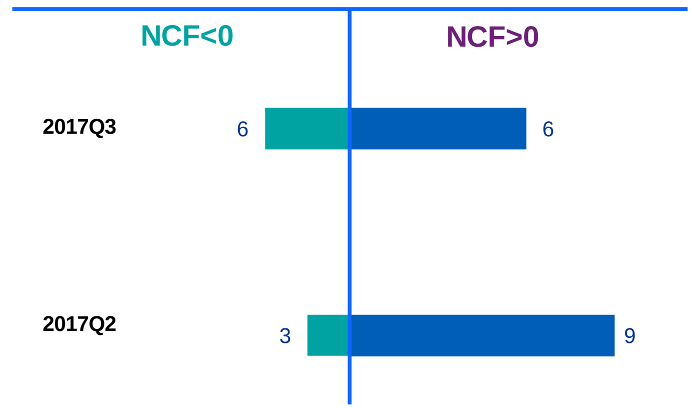
*Sixteen life insurers did not disclose NCF in 2017Q3
*Sixteen life insurers did not disclose NCF in 2017Q2

P&C



*Six P&C insurers did not disclose NCF in 2017Q3
*Six P&C insurers did not disclose NCF in 2017Q2

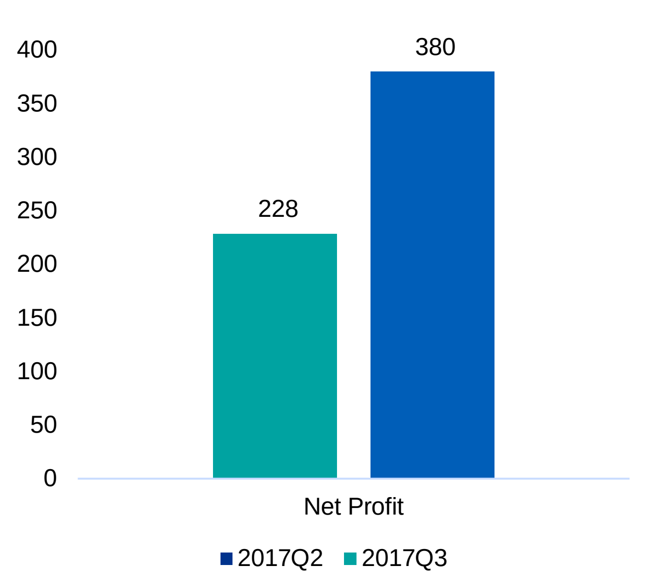
Reinsurers



- ❑ 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.

Net profit

Life (in RMB100 million)



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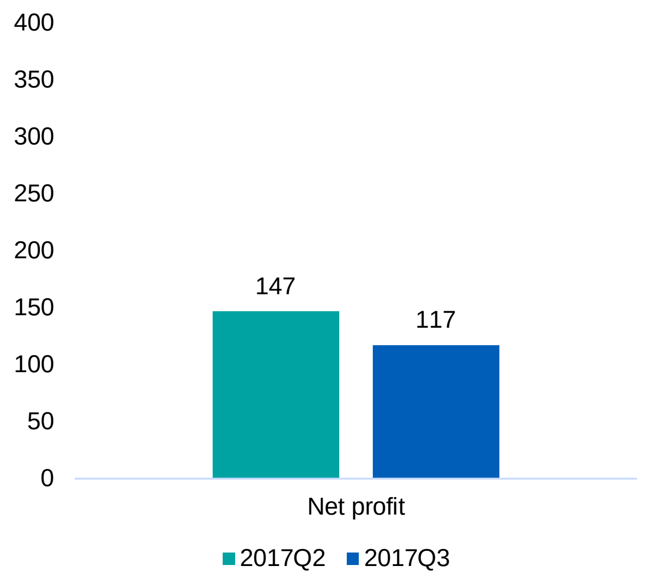
*Seventy-four life insurers had disclosed information as at 15 November 2017

P&C (in RMB100 million)



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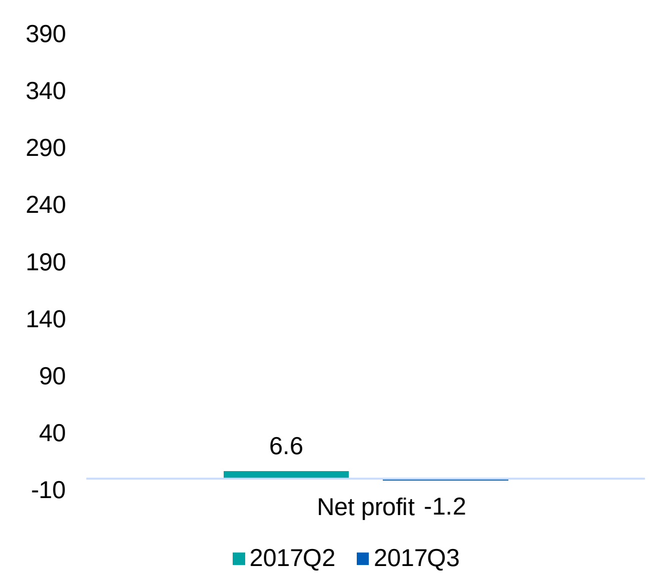
*Eighty P&C insurers had disclosed information as at 15 November 2017

Reinsurers (in RMB100 million)



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*Twelve reinsurers had disclosed information as at 15 November 2017

- The net profit for life insurers increased 66.4% compared with the prior quarter.
- The net profit for P&C insurers fell 20.1% compared with the prior quarter.
- Reinsurers had negative profit in 2017Q3.

02

C-ROSS Phase II update

Summary of C-ROSS Phase II tasks and potential impact (1/4)

Regulatory rule improvement & potential business impact

#	Regulatory rule improvement	Potential business impact
1	**Revise and improve *The Regulatory Rules Governing The Solvency of Insurance Companies***, further enhance the solvency regulation framework, refine regulatory measures, and strengthen the binding constraint by solvency regulation.	The new overarching solvency rule was released for public consultation in October 2017. Among other changes, C-ROSS solvency ratio and integrated risk rating (IRR) requirements, various levels of regulatory intervention are introduced.
2	Formulate detailed **rules for insurance group prudential supervision**; improve capital measurement for insurance groups; clarify on: 1) insurance group's regulatory liquidity indicators, 2) solvency aligned risk management and risk assessment standards; and 3) integrated risk rating standards; strengthen supervision over insurance groups.	The solvency supervision on insurance groups will be strengthened, especially regarding cross-sector risks and related transactions.
3	Research and establish solvency regulatory rules **tailored for mutual insurance companies and captive insurance companies**. Establish prudential regulatory rules and mechanisms that can adapt to the nature and characteristics of new forms of insurers.	These new forms of insurers will likely have tailor-made solvency regulatory rules, which may alleviate compliance burdens.
4	Research and explore the **use of special adjusting factors in capital measurement** to better reflect the direction of regulations and policies, guide the insurance industry back to its long-term sound risk management and protection nature, and enhance the insurance industry's capability to serve the real economy.	The product offerings and asset allocation of insurers may become more geared towards long-term protection products and certain infrastructure type investment.
5	**Revise the assessment basis and scope of actual capital**, consider both on- and off-balance sheet asset and liability items, penetrate to root-level asset portfolio when evaluating assets (such as long-term equity investments) that meet certain conditions, and strictly deduct the actual capital that is double-counted; **revise the admissibility and evaluation criteria of certain assets; revise and improve the evaluation criteria of insurance contract liabilities** to maintain necessary level of conservatism in liability valuation; prudently recognise the residual margin of in-force policies in core capital; **revise and improve the definition of capital, raise the capital standards, and strengthen the authenticity and compliance of capital.**	The quality of capital and capital standards would likely increase.
6	Research and **improve the principles and standards of the penetration methods for measuring market risk and credit risk**, and strengthen the risk identification and supervision of real risks.	Structured assets may face more stringent minimum capital requirements.

Summary of C-ROSS Phase II tasks and potential impact (2/4)

#	Regulatory rule improvement	Potential business impact
7	Comprehensively review, calibrate and **improve the standards of market risk minimum capital**.	Reviewing and recalibrating market risk minimum requirements from time to time could help to evaluate reasonableness of charge under various market conditions.
8	**Improve the credit risk minimum capital standards**, calibrate risk factors, calibrate and update the correlation coefficients of various types of credit risks, and introduce the capital requirement for concentration risk.	Credit risk minimum capital for different asset classes will likely become more rationalised; a diversification benefit and/or penalty on adverse developments regarding asset concentration could rise.
9	**Improve the insurance risk minimum capital standards**, and calibrate and update minimum capital requirements for health, motor, agriculture, credit and other types of insurance, based on the latest insurance market data.	Adjusting the minimum capital requirements for certain product lines may introduce solvency pressure on some property & casualty insurers.
10	Research and **establish solvency regulatory rules specifically for reinsurance business**, and standardise the solvency measurement and assessment for reinsurance, particularly for financial reinsurance and retrocession.	The supply and demand for reinsurance business is likely to be affected. Financial reinsurance and retrocession may face more stringent regulations.
11	**Improve the regulatory rules for stress testing**, refine stress test implementation guidelines, further clarify the methods and rules, and enhance the science, practicability and effectiveness of stress testing.	Stress testing methods and standards will be more clearly defined, which should help make the stress test a more meaningful business exercise.
12	**Improve liquidity risk regulatory rules**. Based on the specific characteristics of property & casualty insurance, life insurance and reinsurance, adjust the key indicator system design for liquidity risk supervision, and improve the science, accuracy and timeliness of liquidity risk indicators.	Liquidity risk indicators and cash flow testing requirement may become more tailor-made for different types of insurers/products, which should help liquidity risk management and asset liability management.
13	**Improve the integrated risk rating (IRR) system**. Refine the assessment rating levels, optimise assessment criteria and indicators, and improve evaluation mechanism and procedures; develop rating standards for the risk rating of insurance companies' branches; explore a combination of off-site and on-site assessment to improve the objectivity and reliability of ratings; expand the scope of IRR and gradually include insurance group, pension companies and insurance asset management companies into the scope of IRR evaluation; improve the feedback mechanism of the IRR results, standardise the scope and procedures, and improve the pertinence and effectiveness of the feedback.	The IRR and SARMRA system will be more refined and transparent, which should improve their effectiveness and help insurers' implementation. Higher compliance cost is expected for insurance groups, pension companies and insurance asset management companies (currently exempted).
14	**Improve the Solvency Aligned Risk Management Requirements and Assessment (SARMRA) system**. Further refine the assessment standards, prepare the assessment handbook, improve assessment mechanism, and enhance the science and effectiveness of the assessment. Improve and standardise the feedback mechanism of the SARMRA results, and improve the pertinence and effectiveness of the feedback.	
15	Improve the regulatory rules of the Pillar III of C-ROSS, further increase transparency, cultivate and **strengthen the market discipline mechanism**.	Solvency information disclosure requirements will be enhanced and better reinforced, resulting in more transparency to the public.

Summary of C-ROSS Phase II tasks and potential impact (3/4)

Implementation mechanism enhancement & potential business impact

#	Implementation mechanism enhancement	Potential business impact
16	Pay close attention to cloud-based computing, Big Data, artificial intelligence, block-chain, and other new financial technology development trends; conduct **application research on new regulatory science and technology**, and actively explore new prudential supervision of the insurance industry in the context of new technology.	More information technology-driven regulatory reporting and inspections are expected, bringing about higher short-term compliance cost but long-term efficiency gain.
17	Gradually build multi-dimensional, stereoscopic, open solvency risk analysis and monitoring systems; form a mechanism with participation by the CIRC; research institutions, intermediaries, and industry associations; **strengthen the risk early warning and decision-making** support abilityof solvency information.	
18	Optimise the C-ROSS regulatory information system, utilise its automatic data verification, off-site analysis and other functionalities, and **improve the informatisation level of C-ROSS** regulations.	
19	**Establish the appraisal and supervision mechanism for accounting firms, actuarial consulting firms, asset valuation agencies, credit rating agencies and other third parties** associated with the prudential supervision of insurance industry.	More accountability for external vendors who provide solvency-related services will likely be introduced, resulting in increasing demand for high quality service providers.
20	Establish constant and pluralistic **solvency data authenticity assessment mechanism**. Strictly investigate and severely punish false capital, false asset, false reserve, false IRR data, false information disclosure, and other violations that lead to the erosion of solvency data base; strengthen the foundation of solvency regulation.	More frequent and more strict audit or regulatory inspection of solvency data reporting is likely.
21	**Enhance the working mechanism of the solvency regulation committee.**	More transparency and effectiveness of regulatory measures.

Summary of C-ROSS Phase II tasks and potential impact (4/4)

Strengthening regulatory cooperation & potential business impact

#	Strengthening regulatory cooperation	Potential business impact
22	Promote the establishment of and actively **participate in the financial prudential regulation cooperation mechanism**. Under the overall arrangement by the China Communist Party Central Committee and the State Council's stable financial development and supervision coordination mechanism, strengthen the prudential regulation coordination with the related bodies; and effectively prevent and control various types of cross-market, cross-industry, cross-field financial risks.	The regulations among different financial sectors will likely entail a more holistic view of risk, and involve close monitoring of risk interconnectedness and prevention of regulatory arbitrage. Insurance groups with exposure to other financial services business might face more comprehensive and stringent regulations.
23	**Establish C-ROSS equivalence assessment system**; and enhance the solvency regulation cooperation with other jurisdictions especially those along the “One Belt and One Road” path.	Preferential solvency treatment for insurers or reinsurers based in certain jurisdictions (e.g. Hong Kong, “One Belt and One Road” countries) will likely be introduced.
24	Building upon the practices in recent years, further explore and improve the standards and mechanisms of **applying the China insurance accounting standards and C-ROSS regulations to domestic insurance institutions’ subsidiaries located in other jurisdictions**.	More consistent and active application of the China insurance accounting standards and C-ROSS regulations to insurers located in other jurisdictions will likely ensue.
25	Research and assess the potential **impact on insurance prudential supervision from both international and domestic accounting standard changes**, and study and determine the applicability and feasibility of new accounting rules regarding prudential supervision.	Potential better alignment among IFRS17, IFRS9, China GAAP, and C-ROSS valuations may provide opportunities and challenges for insurers.
26	Actively **participate in international regulatory policy making**; provide international regulation and a global insurance industry governance system incorporating the effective practices and useful experiences in China; promote the establishment of reasonable, fair, and inclusive international insurance regulations.	Efforts towards increasing the international profile of C-ROSS and increase China’s influence in international financial regulatory rule-making would continue going forward.

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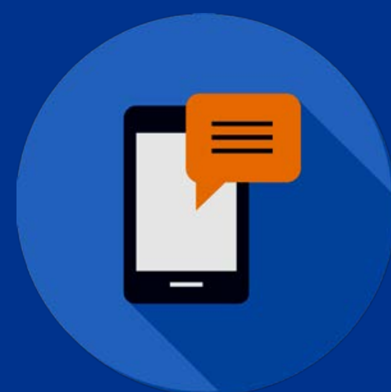

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