Exploring on

The Risk Profile of China Insurance

for setting solvency capital requirement

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1 Background

CIRC’s Regulatory Strategies:

Three Pillar Principle (2005):
(1) Governance  (2) Solvency  (3) Market Conduct

The Five Regulatory Measures (2004):
(1) Internal Control   (2) Solvency Control
(3) On site Inspection  (4) Investment Control
(5) Guarantee Fund
Progress Review on 5 Measures

(1) **Internal Control**
   CIRC [No.131, 1999]: Internal Control Directive

(2) **Solvency Control**
   to be discussed more

(3) **On site Inspection**
   CIRC Life and P&C On-site Inspection Manuals

(4) **Investment Control**
   CIRC[No.6, 2003]: Administration on investment assets

(5) **Guarantee Fund**
   CIRC [No.16, 2004]: Guarantee Fund Administration
More about (2): Solvency Control

CIRC [No.1, 2003]: Solvency Regulation
Solvency Margin ( + Regulatory indicators )

Two components:

1) To calculate Minimum Margin:

2) To Calculate Actual Margin:
   CIRC Statutory Accounting Standards No.1 --- 5
   CIRC Actuarial Calculations[No.90, 1999; No.67, 2003]
   CIRC [No.13, 2004]: Technical Provisions in Non-life
2 Our Research Target

- Target questions:
  What is the right level of minimum capital requirement (or solvency margin)?

- Fundamental questions (study focus):
  What risks are damaging China insurers’ solvency?
  What are common characters, and what are the specific characters of China market? Among the risks, what should/can be controlled by capital requirement?

(i.e. by risk-oriented approach)
3 Study Methodologies

How can we answer the above questions?

Example 1: about Data

(1) can we collect sufficient and true data? If yes
(2) can we predict future based on the data?

Example 2: Risk identification techniques recommended by the “Risk Management Standard”

Brainstorming, Questionnaires, Business Studies, Industry Benchmarking, Scenario analysis, Risk Assessment Workshop, Incident Investigation, Auditing and inspection, Hazard & Operability Studies etc
Our Study Approach

- Static analysis
  - selected use of existing methods--- 4 steps
    1. Normative studies
    2. Statistical analysis
    3. Field study & case analysis
    4. combine (1) --- (3)

- Keeping up with a historical view on the evolving risk profile of China insurance
Details of the 4 steps

Step 1: study on other people’s works, and summarise/list the risks of insurers

Step 2: comparison study and statistical analysis for estimating the quantitative risks on the list, with public and regulatory data.

Step 3: field studies on selected risks to further identify the significance of risks.

Step 4: case analysis for specific and significant risks of China insurers.
Step 1: Study others’ works

- The HIH Royal Commission (2003): Failure of HIH
- The Failure of the Equitable Life
- The Serial failures of Japanese insurers
- Risk disclosures for IPO of China Life, PICC, Ping-an
### Step 2: Statistical analysis of significant quantitative risks

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<thead>
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<tbody>
<tr>
<td>1</td>
<td><strong>Investment risk of insurers</strong></td>
<td>e.g. Investment assets/equity assets</td>
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<tr>
<td>2</td>
<td><strong>Risks of Life Insurers</strong></td>
<td>e.g. Pricing risk, long-term interest rate guarantees, A/L matching etc</td>
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<tr>
<td>3</td>
<td><strong>Risks of P&amp;C Insurers</strong></td>
<td>e.g. Reserving risk, Pricing risk, Receivable premium, Reinsurance recovery etc</td>
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Step 3 & 4: Case Analysis

- Example: Receivable Premium (Credit risk)

**Step 3:** Field studies to business branches

**Step 4:** Case studies by company visits
5 Initial Judgment

- **Common characters**
  
  A rat is a rat --- one tail, four legs.
  
  Risks are generally classified into:
  
  1) Technical risks (reserving, pricing)
  2) Investment risks (and M/L for life insurers)
  3) Credit risk
  4) Operational, Governance & other risks

- **Specific characters**
  
  1) The three-worlds risk map
  2) The evolving & dynamic risk profile
5 Initial Judgment

For the purpose of solvency supervision, and referring to the current risk profile of China insurance, Capital Requirement of the first Pillar may be not so dominant. The other two Pillars (governance, market conduct) are at least same important.

Thank you!