



Insurance Update New Provisions Governing the Administration of Reinsurance Business

The China Insurance Regulatory Commission (“CIRC”) has recently issued the *Provisions on the Administration of Reinsurance Business 2010* (“the New Provisions”) which came into effect on 1 July 2010. The New Provisions will supplement the Amended Insurance Law and replace the earlier version of the *Provisions on the Administration of Reinsurance Business* (“the Old Provisions”) promulgated back in 2005.

The main amendments contained in these New Provisions are set out as follows:

Reinsurance restriction abolished

The Old Provisions specifically required that licensed insurers in China underwriting insurance business must offer at least 50% of the amount to be reinsured to at least two of the locally licensed professional reinsurance companies in China. The said 50% quota, unless the original offers to the local reinsurance companies are turned down, could not be offered to potential offshore reinsurers. These restrictions have now been removed by the New Provisions.

Calculating risk unit

The New Provisions stipulate that the proportion of business ceded to a reinsurer for each risk unit should not exceed 80% of the insured amount or the limit of liability in the direct insurance contract underwritten by the direct insurer. The New Provisions have now clarified that such rule will only apply to direct property insurance business (as opposed to life insurance business) which is ceded by way of proportional reinsurance.

Assessment methods

Under the New Provisions, both the direct insurer and the reinsurer are required to adopt consistent assessment methods and assumptions when assessing the statutory reserves for the same life insurance business.

Insurance broker’s obligations

The New Provisions also stipulate that an insurance broker shall, pursuant to the agreement reached with any direct insurer, deliver in a timely manner its invoices, settle reinsurance amounts and perform its other obligations, and shall not embezzle or withhold any reinsurance premium, compensation refund or refunded handling charges and expenses. An insurance broker shall inform the cedant of all relevant information concerning the reinsurer in a timely and accurate manner.

Disclosure by approved foreign-funded insurance company

The New Provisions provide that where an approved foreign-funded insurance company has entered into reinsurance treaty with any of its affiliated entities, the approved foreign-funded insurance company is required to submit supporting documents (i.e. reinsurance slip, report containing statistics on each affiliated entities) on a regular basis to the CIRC.

Reporting requirements

The New Provisions impose a stricter requirement on direct insurer to disclose information relating to its reinsurance treaty business to the CIRC. The direct insurer is required to submit a copy of the reinsurance agreement to the CIRC for record. In addition, information relating to renewal of reinsurance agreement or new reinsurance agreement, direct outward business, broker arrangement, changes in the reinsurance arrangements and so on are to be submitted to the CIRC prior to 30th April each year. In addition, property insurance companies have to report information on their reinsurance every quarter.

Legal liability

Insurance companies and brokers will be held liable and are subject to punishments by the CIRC if they conduct reinsurance business in violation of the regulations prescribed in the New Provisions.

The New Provisions have imposed harsher punishments on the relevant person-in-charge who fails to handle reinsurance business in accordance with the provisions contained in the New Provisions. Such person will be subject to a fine of between RMB 10,000 (or US\$1,481) and RMB100,000 (or US\$14,815) and if the wrongdoing is serious, the person may face further punishments including disqualification from holding office, cancellation of practicing licence, and restrictions from holding positions in the insurance industry for a certain period of time or even for life.

The CIRC expects these New Provisions to play an integral role in strengthening the administration of reinsurance business, enhancing the competition of the Chinese reinsurance market and maintaining the steady growth of the insurance industry in China.

Further information

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