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New Chinese Actuarial Regulation of Non-guaranteed Life Products

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Non-guaranteed life products, which include unit-linked and universal life, are developing fast and playing a more and more important role in the life insurance market in China. Reports from the China Insurance Regulatory Commission (CIRC) indicate that the market share of non-guaranteed life products reached 70 percent in May of 2003.

Those products are much more complex compared with traditional guaranteed-premium, guaranteed-benefit life insurance products, and product features vary at a great range. For the purpose of protecting consumer benefits and providing consistent actuarial criteria, CIRC, the Chinese official insurance regulator, set out an actuarial regulation of non-guaranteed life products in mid-2003.

The new actuarial regulation stresses pricing, valuation and other characteristics related to participating products, unit-linked products and universal life. Regulations of participating products include:

- Limits on pricing assumption about interest rate, mortality rate and expense rate
- Premium and cash-value calculation method
- Appropriate dividend calculation method
- Standard valuation assumption about interest rate, mortality rate and expense rate

Regulations of unit-linked products include:

- Guaranteed-minimum investment return rate is not allowed

- Sum assured at risk should be more than zero during whole policy term
- The maximum and minimum schedule premium that could be paid
- Expense items that can be charged by the insurance company and their maximum limits
- Adjustment method should be clearly described in contract provisions if expense is not guaranteed
- Unit price determination procedure
- Unit reserve and sterling reserve calculation method

Regulations of universal life include:

- Sum assured at risk should be more than zero during whole policy term
- Separate account should be set up
- Credit rate determination is subject to certain criteria
- The maximum and minimum schedule premium that could be paid
- Expense items that can be charged by the insurance company
- Cash value and reserve calculation

This new actuarial regulation of non-guaranteed life products is an important milestone of regulation and has deeply influenced life insurance product development and valuation. □

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