Measures for the Administration of Assets and Liabilities of Insurance Companies of China (the PRC)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Chapter I — General Provisions

Article 1 — These Measures are formulated in accordance with the Insurance Law of the People's Republic of China for the purposes of preventing the risk of asset-liability mismatch of insurance companies, enhancing the asset-liability management capability of insurance companies, strengthening asset-liability management constraints, and maintaining the safe and sound operation of the insurance industry.

Article 2 — For the purposes of these Measures, "insurance companies" means commercial insurance companies established in accordance with the law within the territory of China and engaged in the insurance business, including property insurance companies and life insurance companies.

Article 3 — For the purposes of these Measures, "asset-liability management" means the formulation, implementation, evaluation and adjustment by an insurance company, in accordance with its development strategy, business objectives and risk appetite, of policies and procedures relating to assets and liabilities, so as to maintain a reasonable match between assets and liabilities and reduce the risk of asset-liability

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mismatch.

Article 4 — The asset-liability management objectives of an insurance company include term structure matching, cost-yield matching and liquidity matching, among others.

Term structure matching means that an insurance company is able to maintain a reasonable match between asset cash flows and liability cash flows over a relatively long term structure, enhance the company's economic value, and prevent interest rate risk and reinvestment risk.

Cost-yield matching means that the returns on an insurance company's assets are able to cover its liability costs, that it possesses a certain sustainable profitability, and that it prevents the risk of interest-rate spread loss.

Liquidity matching means that an insurance company is able to obtain sufficient funds in the short term to pay matured debts or perform other payment obligations, thereby preventing liquidity risk.

Article 5 — An insurance company shall assume the primary responsibility for asset-liability management, establish and improve its asset-liability management system, and strengthen coordinated asset-liability management. The asset-liability management of an insurance company shall adhere to the following principles:

(1) Comprehensive coverage. Asset-liability management covers all assets and liabilities of the ordinary accounts of an insurance company, manages assets and liabilities as a whole and, while taking into account the characteristics of different categories of liabilities, adopts differentiated asset allocation policies.

(2) Reasonable matching. Asset-liability matching is matching that is commensurate with the company's development strategy, risk appetite, capital strength and management capability. An insurance company shall be able to effectively manage the risk of asset-liability mismatch and keep the degree of mismatch within a reasonable range.

(3) Soundness and prudence. Asset-liability management shall ensure that assets and future income are able to cover the obligations of the insurance company to policyholders, the insured or beneficiaries, capital requirements, and other liabilities or activities. On the liability side, the company shall adhere to a long-term sound business philosophy, optimize the liability structure, and enhance the core competitiveness of its business. On the asset side, the company shall adhere to a long-term sound value-investment philosophy and follow the principles of safety, liquidity and yield.

(4) Overall coordination. Asset-liability management shall coordinate multiple objectives such as economic value, profitability, liquidity and solvency requirements, reflect the interaction between assets and liabilities, and take into account the correlation among different asset classes and among products or business types.

Article 6 — The National Financial Regulatory Administration and its dispatched offices shall supervise and administer the asset-liability management activities of insurance companies in accordance with the law.

Self-regulatory organizations of the insurance industry shall regularly conduct exchanges of experience in and training on asset-liability management among insurance companies, and strengthen communication, coordination and information sharing.

Chapter II — Governance Structure for Asset-Liability Management

Article 7 — An insurance company shall clearly specify the asset-liability management duties of the board of directors and senior management, and establish an asset-liability management organizational system with clearly defined division of labor, clear reporting lines and efficient execution, in which the board of directors bears ultimate responsibility, senior management exercises direct leadership, the asset-liability management department undertakes overall coordination, functional departments cooperate with one another, and the internal audit department conducts inspection and supervision.

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An insurance group (holding) company shall fully consider the compatibility between assets and liabilities at the overall group level, establish and improve its asset-liability management organizational system, clarify the corresponding duties of the board of directors, senior management and internal departments, urge the insurance companies and insurance asset management companies within the group to strengthen coordinated asset-liability management, and effectively identify, measure, monitor and control the overall risk profile of the insurance group.

Article 8 — The board of directors of an insurance company shall perform the following asset-liability management duties:

(1) approving the overall objectives and strategy of asset-liability management;

(2) approving, or authorizing the approval of, the systems relating to asset-liability management;

(3) approving business planning and products that have a material impact on the company's asset-liability matching;

(4) approving asset allocation policies, including strategic asset allocation plans and annual asset allocation plans, and approving or authorizing the approval of adjustment plans for asset allocation policies;

(5) approving the annual asset-liability management report, continuously monitoring the asset-liability matching situation, and keeping abreast in a timely manner of the level of asset-liability mismatch risk, the state of management and material changes thereto;

(6) approving the performance assessment system for asset-liability management; and

(7) other relevant duties.

The board of directors shall establish an asset-liability management committee (or a committee with corresponding functions). The asset-liability management committee shall be responsible for deliberating on, or, in accordance with authorization, approving, proposals relating to asset-liability management. The asset-liability management committee shall be composed of at least three directors; its chairperson shall be the chairman of the board or a director with relevant experience in asset-liability management; and its members shall possess the professional knowledge, experience and capability required to perform asset-liability management duties.

Article 9 — Senior management of an insurance company shall, in accordance with the authorization of the board of directors, perform the following asset-liability management duties:

(1) deliberating on, or in accordance with authorization determining, the systems relating to asset-liability management;

(2) formulating, periodically evaluating and supervising the implementation of asset-liability management policies and procedures;

(3) formulating, and organizing the implementation of, business planning and asset allocation policies;

(4) deliberating on or approving insurance product dividend and universal insurance settlement policies, and products that have a material impact on the company's asset-liability matching;

(5) listening to reports on asset-liability management at least quarterly, and controlling and managing asset-liability mismatch risk;

(6) establishing a performance assessment system for asset-liability management; and

(7) other relevant duties.

Senior management shall establish an asset-liability management executive committee and clearly define its authorization. The chairperson of the asset-liability management executive committee shall be the general manager or a member of the asset-liability management committee; its members shall at least include

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company-level heads of the functional departments in charge of products, actuarial work, main sales channels, investment, risk management, finance and other functions.

Article 10 — An insurance company shall establish or designate an asset-liability management department, allocate the human and material resources necessary for performing asset-liability management duties, and ensure that its performance of duties remains independent and free from interference by the insurance business and investment departments. The asset-liability management department shall perform the following duties:

(1) drafting the systems relating to asset-liability management;

(2) drafting and coordinating the implementation of asset-liability management policies and procedures;

(3) drafting, or participating in drafting, the risk tolerance and risk limits relating to asset-liability management, tracking and monitoring the asset-liability matching situation, and studying issues in and solutions for asset-liability management work;

(4) drafting, or participating in drafting, the company's business planning, capital planning, asset allocation policies and liquidity risk management policies, issuing professional opinions on major investments and on products that have a material impact on the asset-liability matching situation, and providing decision support to senior management;

(5) coordinating the development of the asset-liability management information system (or model tools);

(6) coordinating the implementation of asset-liability management performance assessment; and

(7) other relevant duties.

Article 11 — An insurance company shall clearly define the division of duties and reporting requirements among functional departments such as product, actuarial, main sales channels, investment, risk management and finance in respect of asset-liability management. The asset-liability management department shall take the lead in organizing a cross-departmental asset-liability management working group, which shall hold meetings at least quarterly to discuss matters relating to asset-liability management.

Article 12 — An insurance company shall establish a performance assessment system for asset-liability management, clearly define performance assessment methods and standards, regulate the transmission mechanism and limit management of asset-liability matching indicators, and implement long-cycle assessment and evaluation, so as to prevent the relaxation of asset-liability management due to excessive pursuit of business expansion and short-term profits.

An insurance company shall incorporate asset-liability management content into its annual training plan, intensify training, and ensure that relevant personnel possess the necessary professional knowledge, experience and capability.

Article 13 — The internal audit department of an insurance company shall review and evaluate the adequacy and effectiveness of asset-liability management at least once a year.

Internal audit reports on asset-liability management shall be submitted to the board of directors. The board of directors shall, in response to issues identified by internal audit, urge senior management to take rectification measures in a timely manner, and the internal audit department shall follow up and inspect the implementation of rectification measures.

Article 14 — An insurance company shall strengthen informatization development, establish an asset-liability management information system (or model tools) commensurate with its business complexity, improve the management system for the information system, improve the data management mechanism, clearly define the internal control processes for using and maintaining the information system and relevant model assumptions, strengthen business authorization and information system permission management, evaluate

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the effectiveness of the information system at least annually, and possess the technology and measures necessary to ensure the effective and secure operation of the information system.

Chapter III — Asset-Liability Management Policies and Procedures

Article 15 — An insurance company shall, in accordance with the nature, scale, complexity and risk characteristics of its business, formulate asset-liability management policies and procedures, the main content of which includes:

(1) conducting asset and liability analysis and formulating an asset-liability management plan;

(2) coordinating relevant functional departments to strengthen coordinated asset-liability management in business planning, product development and pricing, insurance business management, asset allocation policies, major investments and other aspects;

(3) conducting asset-liability management stress testing and back-testing analysis;

(4) regularly compiling and deliberating on asset-liability management reports; and

(5) promptly evaluating and adjusting the asset-liability management plan.

Article 16 — An insurance company shall use appropriate methods and models to measure and analyze indicators such as the term structure of assets and liabilities, cost-yield and liquidity under normal and stress scenarios, and, in combination with the overall objectives and strategy of asset-liability management, set early-warning values and risk limits for indicators and formulate an asset-liability management plan.

A property insurance company shall adopt reasonable methods to forecast idle funds and establish a mechanism for the management and assessment of idle funds.

A life insurance company shall reasonably determine forecast assumptions and, in combination with business planning and asset allocation policies, forecast asset cash flows and liability cash flows separately.

Article 17 — An insurance company shall, in accordance with insurance market demand, changes in the asset-side situation and asset-liability matching requirements, reasonably formulate and promptly adjust business planning and product development plans, and optimize the product and business structure.

An insurance company shall strengthen the management of products that have a material impact on the company's asset-liability matching situation, clearly define the criteria for identification, and study and analyze the investment strategies corresponding to such products as well as their impact on the company's solvency and asset-liability matching situation.

Article 18 — A property insurance company shall optimize its product pricing models, methods and tools and strengthen product pricing management.

A life insurance company shall, in accordance with the mechanism linking industry predetermined interest rates to market interest rates and the dynamic adjustment mechanism, do a good job of dynamically assessing and monitoring liability costs, and, when formulating insurance product dividend and universal insurance settlement policies, shall assess their impact on the asset-liability matching situation, in particular cost-yield matching.

Article 19 — An insurance company shall manage and assess the impact on the company's asset-liability matching situation of material changes in product structure, sales channels and expense policies, as well as of large deviations of surrenders, claims payments and other matters from expectations.

A property insurance company shall, when determining reinsurance arrangements, measure the liquidity risk caused by concentrated claims payments triggered by catastrophic and other major insurance events, default by reinsurance counterparties, and untimely reinsurance recoveries.

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Article 20 — An insurance company shall, in accordance with the liability characteristics of its insurance business and by comprehensively considering objectives such as the company's risk appetite and risk limits, asset-liability matching requirements, long-term expected returns and solvency management, determine the expected return objectives and risk indicators of each type of account, and formulate, implement and adjust asset allocation policies.

An insurance company shall designate professional personnel to perform the risk management and compliance duties of asset allocation, and keep them independent of the personnel implementing the asset allocation policies.

Article 21 — Before making a major investment decision, an insurance company shall comprehensively consider factors such as solvency constraints, risk appetite, market environment and regulatory requirements, and assess and analyze the impact of the investment activity on the asset-liability matching situation of the company and the corresponding account.

For the purposes of these Measures, "major investment" includes a single major equity investment, a single major stock investment or acquisition of a listed company, a single investment-type real property held in the form of property rights or equity of a project company, or an investment in a single underlying asset whose cumulative investment amount exceeds 3% of the company's total assets at the end of the previous quarter or RMB 300 million (or the equivalent in foreign currency), excluding investments in central government bonds issued within the territory of China, provincial government bonds, quasi-government bonds, policy financial bonds, as well as bank deposits, cash and liquidity management instruments.

Article 22 — Where an insurance company entrusts an insurance asset management company as the trustee to make investments, it shall strengthen information sharing with the trustee and provide the trustee with liability information that may affect its investment decisions, including the duration target, investment yield requirements and expected changes in cash flows of the entrusted investment account; the trustee shall provide the insurance company with information such as the implementation of asset allocation policies, and cooperate with the insurance company in measuring and analyzing asset-liability matching indicators.

Article 23 — An insurance company shall conduct stress tests on a regular basis, analyze the impact of potential risk factors on the term structure, cost-yield and liquidity of assets and liabilities, and take corresponding preventive measures. Stress testing shall meet the following requirements:

(1) stress testing scenarios shall, in combination with changes in the macroeconomic and market environment, cover risk factors on the asset side, liability side and capital side;

(2) stress scenarios and their testing periods shall be set reasonably and prudently, fully considering specific shocks affecting the term structure, cost-yield and liquidity of the company's assets and liabilities, systemic shocks affecting the entire market, scenarios combining the two, and stress degrees of different intensity such as mild and severe;

(3) the inherent correlations among various risks and the impact of market volatility on the company's risks shall be considered, and stress testing and reverse stress testing shall be implemented in light of the company's actual situation; and

(4) when determining the asset-liability management plan and formulating business planning and asset allocation policies, the results of stress testing shall be fully considered, and the above content shall be adjusted in accordance with the stress testing results when necessary.

Article 24 — An insurance company shall establish a back-testing mechanism for asset-liability management, conduct back-testing analysis every year, and study and adopt improvement measures for material deviations. Back-testing analysis shall at least include:

(1) the deviation between expected premium income and actual premium income by major account category;

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(2) the deviation between the assumed long-term yield rate of major asset categories and the actual long-term yield rate of major asset categories, and the deviation between the expected investment yield rate and the actual investment yield rate by major account category;

(3) the deviation between the expected liability funding cost rate and liability guaranteed cost rate by major account category and the actual liability funding cost rate and liability guaranteed cost rate; and

(4) a comparison and attribution analysis of asset-liability management objectives and their achievement.

Article 25 — The asset-liability management information system (or model tools) of an insurance company shall at least have the following functions:

(1) measuring asset-liability matching indicators;

(2) supporting the monitoring and control of the transmission mechanism and limit management of asset-liability matching indicators;

(3) measuring the impact of risk factors such as market risk, credit risk and surrender risk on the asset-liability matching situation;

(4) measuring the impact of internal decisions such as business planning, insurance product dividend and universal insurance settlement policies and asset allocation policies and changes thereto on the asset-liability matching situation; and

(5) supporting the implementation of asset-liability management stress testing under different assumption scenarios.

Article 26 — An insurance company shall establish a standardized asset-liability management reporting system, clearly define the content, form, frequency and reporting scope of reports, and ensure that the board of directors, senior management and other management personnel keep abreast of the asset-liability matching situation and its management in a timely manner.

Article 27 — An insurance company shall, in accordance with factors such as changes in the macroeconomic situation and market conditions and in combination with its own solvency situation and risk changes, track the changing trends of asset-liability matching indicators and major influencing factors, promptly evaluate and adjust the asset-liability management plan, and perform the corresponding approval procedures.

Chapter IV — Regulatory Indicators and Monitoring Indicators

Article 28 — An insurance company shall calculate asset-liability management regulatory indicators and monitoring indicators at the legal-person level. For regulatory indicators, minimum regulatory standards shall be set and indicator limit management shall be strengthened; monitoring indicators are used to identify and give early warning of asset-liability mismatch risk and to improve the level of risk management.

Article 29 — The asset-liability management regulatory indicators of a property insurance company include the idle fund coverage ratio, the income coverage ratio and the liquidity coverage ratio. Among them:

Idle fund coverage ratio = idle funds ÷ medium- and long-term assets, with a minimum regulatory standard of not less than 100%.

Income coverage ratio = (insurance service revenue + comprehensive investment income) ÷ comprehensive costs, with a minimum regulatory standard of not less than 100%.

The liquidity coverage ratio has a minimum regulatory standard of not less than 100%, and its calculation method shall be implemented in accordance with the relevant liquidity risk regulatory rules of the National Financial Regulatory Administration.

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Article 30 — The asset-liability management regulatory indicators of a life insurance company include the interest rate risk hedging ratio, the comprehensive investment income coverage ratio, the net investment income coverage ratio and the liquidity coverage ratio. Among them:

Interest rate risk hedging ratio = interest rate sensitivity of cash flow inflows ÷ interest rate sensitivity of cash flow outflows, with a minimum regulatory standard of between 50% and 150%; for a life insurance company with an interest rate risk hedging ratio below 50%, the interest rate sensitivity of its cash flow inflows shall not be less than 5%.

Comprehensive investment income coverage ratio = comprehensive investment income ÷ liability funding cost, with a minimum regulatory standard of not less than 100%.

Net investment income coverage ratio = net investment income ÷ liability guaranteed cost, with a minimum regulatory standard of not less than 100%.

The liquidity coverage ratio has a minimum regulatory standard of not less than 100%, and its calculation method shall be implemented in accordance with the relevant liquidity risk regulatory rules of the National Financial Regulatory Administration.

Article 31 — The asset-liability management monitoring indicators of a property insurance company include spread one (the difference between the comprehensive investment yield rate and the liability funding cost rate), spread two (the difference between the net investment yield rate and the liability funding cost rate), and spreads under stress scenarios.

Article 32 — The asset-liability management monitoring indicators of a life insurance company include the effective duration gap, the basis point value change rate, spread three (the difference between the accounting investment yield rate and the liability guaranteed cost rate), spread four (the difference between the maturity yield rate of newly added fixed-income assets and the minimum required return rate of new business liabilities), spreads under stress scenarios, the liquidity matching rate, and the cost-yield matching indicators and liquidity matching indicators by major account category.

Article 33 — The National Financial Regulatory Administration may, in accordance with prudential regulatory needs, adjust the content, calculation basis, calculation frequency and regulatory standards of the asset-liability management regulatory indicators and monitoring indicators for the industry or for specific insurance companies.

Chapter V — Supervision and Administration

Article 34 — The National Financial Regulatory Administration and its dispatched offices shall establish a mechanism for regular analysis of asset-liability management supervision, strengthen regulatory coordination, supervise and inspect the asset-liability management of insurance companies in accordance with the law, and implement differentiated regulatory measures.

Article 35 — An insurance company shall establish and improve an information reporting mechanism and, in accordance with regulations, submit quarterly and annual asset-liability management reports to the information platform designated by the National Financial Regulatory Administration, ensuring that the information is timely, truthful, accurate and complete. The report content includes:

(1) basic asset-liability information, including asset allocation, asset credit status and liability product information; and

(2) the asset-liability matching situation, including term structure matching, cost-yield matching and liquidity matching.

Article 36 — In the annual asset-liability management report of an insurance company, the basic asset-liability information and matching situation shall be verified by an independent third-party review

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institution. In addition to the above report content, the annual report shall also explain the objectives of the insurance company's asset-liability management, the organizational structure chart, personnel and duty arrangements, as well as business planning, asset allocation policies, back-testing analysis and other content.

Article 37 — An insurance company shall evaluate its asset-liability management capability development once a year, including governance structure, policies and procedures and other content, and submit relevant information to the information platform designated by the National Financial Regulatory Administration in accordance with regulations.

The National Financial Regulatory Administration and its dispatched offices shall evaluate the asset-liability management capability development of insurance companies, and incorporate asset-liability matching indicators and capability development into the regulatory rating of insurance companies.

Article 38 — The National Financial Regulatory Administration and its dispatched offices may, in light of the business model of an insurance company, set differentiated early-warning values or early-warning intervals for asset-liability management regulatory indicators and monitoring indicators, issue risk alerts in a timely manner, or require the insurance company to submit a management plan for preventing the deterioration of its asset-liability matching situation.

Article 39 — For an insurance company whose asset-liability management regulatory indicators fail to meet the standards or whose asset-liability management is defective, the National Financial Regulatory Administration and its dispatched offices may, in light of the specific circumstances, take the following measures:

(1) conducting supervisory talks with the board of directors and senior management of the insurance company, requiring it to formulate a feasible rectification plan and a plan to meet the standards within a prescribed time limit;

(2) issuing a regulatory opinion letter, the content of which includes the problems in the insurance company's asset-liability management, the corrective measures to be taken and opinions on meeting the standards within a prescribed time limit;

(3) requiring the insurance company to conduct more rigorous stress testing and submit a more effective improvement plan;

(4) requiring the insurance company to increase the content of its asset-liability management reports and raise the reporting frequency; and

(5) increasing the content of on-site inspections of the insurance company, expanding the scope of inspections and raising the frequency of inspections.

Article 40 — For an insurance company that fails to complete rectification upon expiration of the time limit, the National Financial Regulatory Administration and its dispatched offices shall, in accordance with the law, require the insurance company to adjust its insurance business structure or asset allocation structure, improve its asset-liability matching situation, and take other measures prescribed by laws and regulations.

Article 41 — Where an insurance company violates these Measures, the National Financial Regulatory Administration and its dispatched offices shall impose administrative penalties in accordance with the relevant laws and regulations. Where no law or administrative regulation provides for the matter but these Measures are violated, the National Financial Regulatory Administration and its dispatched offices shall order correction; where correction is not made within the time limit or the circumstances are serious, a warning, a notice of criticism, or a fine of not more than RMB 100,000 shall be imposed on the insurance company and its directly responsible directors, senior management personnel and other directly responsible personnel, as appropriate to the different circumstances; where financial security is endangered and harmful consequences arise, a warning, a notice of criticism, or a fine of not more than RMB 200,000 shall be

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imposed.

Chapter VI — Supplementary Provisions

Article 42 — These Measures shall apply, mutatis mutandis, to policy-type insurance companies, mutual insurance organizations, captive insurance companies and branches of foreign insurance companies. For a branch of a foreign insurance company that has no board of directors, senior management shall perform the corresponding duties of the board of directors and bear responsibility therefor.

Article 43 — The stress scenario rules for asset-liability management of insurance companies shall be formulated separately.

Article 44 — The terms "not less than", "not more than" and "or above" as used in these Measures include the given number.

Article 45 — The National Financial Regulatory Administration shall be responsible for the interpretation and revision of these Measures.

Article 46 — These Measures shall come into force on January 1, 2027. The Notice of the China Banking and Insurance Regulatory Commission on Issuing the Interim Measures for the Supervision and Administration of Insurance Asset-Liability Management (Yin Bao Jian Fa [2019] No. 32) shall be repealed simultaneously.

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