

## Brief Introduction of New Chinese Auto Insurance Rules

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Auto insurance in China is divided into mandatory auto liability insurance and other types of auto insurance (commonly referred to as “commercial” auto insurance). The mandatory auto liability coverages (generally third-party death and injury other than passengers and the driver, medical and vehicle damage) are well-known to consumers. Commercial auto insurance (coverage for damage and injuries to vehicles and passengers) is not widely available.

On September 2, 2019, the China Banking and Insurance Regulatory Commission (“CBIRC”) issued “Guiding Opinions on Implementing Comprehensive Reform of Auto Insurance” (the “Guiding Opinions”) to expand coverage and lower premiums of mandatory auto liability insurance, and encourage development of new commercial auto insurance. The changes of expanding coverage and lowering insurance premiums for mandatory auto insurance have been widely welcomed by consumers; however, the new premium pricing rules have resulted in some commercial auto insurance products being withdrawn from the market.

### **1. Expanded Coverage of Mandatory Auto Liability Insurance for Death and Injury and Medical Expenses**

The new rules increase the death and injury coverage from RMB11,000 to 18,000; and the medical expense coverage limits from RMB10,000 to RMB18,000; however, vehicle damage liability coverage remains RMB2,000 should the insured be liable; and RMB100 should the insured not be liable. After the new rules, the total coverage is increased from RMB122,000 to RMB200,000 should the insured be liable; and the total coverage is increased from RMB12,100 to RMB19,900 should the insured not be liable.

### **2. Further Reductions in Premium Rates of Mandatory Auto Liability Insurance for “Premium” Applicants**

Currently, the standard premium rate is set at RMB950 per year, and the insurance company may adjust the rate upward or downward. Before the new rules, the maximum range of upward and downward adjustment was 30% of the then-effective standard premium rate. After the new rules became effective, the upward allowable adjustment remains the same, but the downward allowable adjustment has been increased from 30% to 50%. The downward adjustment is available to those insureds who have not filed claims in the past three years. This means that the premium rate for these “premium” applicants may be as low as RMB475 per year based on the current standard premium rate.

In addition to lowering premiums, the Guiding Opinions also require insurance companies to decrease the amount of certain charges that may be included in the premium rate. For example, the upper allowable premium adjustment for advertisement fees, commissions payable to insurance brokers and customer appreciation gifts has been decreased from 35% to 25%.

### **3. Encourage Development of New Commercial Insurance Products and Expanded Commercial Insurance Coverage**

Newly added commercial insurance products include auto theft and robbery insurance; glass damage insurance; insurance to cover the damages caused by fire or vehicle explosion due to reasons such as battery failure, broken circuit, or broken gas supply system; engine protection insurance against water immersion damage; and insurance to cover when the third-party liable person cannot be found. The new rule also allows risk-only insurance and offers the insurance product with zero deductibles; finally, the new rule encourages development of new products providing coverage for

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new energy vehicles, extended warranties, and value-added services including proxy vehicle checks, road rescue services, driving services and auto safety inspections.

### **4. Guiding Opinions Present New Challenges to Insurances Companies and Automotive Service Providers**

The new pricing mechanisms may result in insurance companies withdrawing some current types of commercial insurance products. Shortly after the issuance of the Guiding Opinion, on September 9, 2020, CBIRC further issued Model Actuarial Provisions for Commercial Auto Insurance, providing how the insurance company shall establish the premium for auto commercial insurance. The issuance of these more restrictive premium rate requirements made some insurance companies which already offer certain types of commercial auto insurance products discontinue offering them pending study of the impact of the new premium pricing rules.

These more restrictive pricing mechanisms have indirectly affected auto service providers seeking to expand in China. For example, a foreign company providing road rescue and auto repair services looking to enter the Chinese market sought to develop a strategic cooperation program with a large Chinese auto insurance company to develop a comprehensive extended warranty program in support of the auto rescue and repair services it planned to offer in China. However, in the middle of developing the program, the insurance company withdrew, citing its concern that the proposed program is not in compliance with the premium pricing requirements of the Guiding Opinions, forcing the auto service providers to explore alternative options with respect to its China market entry strategy.

We expect that these challenges will sort themselves out as new commercial auto insurance products designed to meet the requirements of the Guiding Opinions are developed and offered in China.

Please contact the author or your Miller Canfield attorney if you have any questions or require help navigating these new requirements or their impact on your business in China.