New Compulsory Rules on Auto Insurance in China

The State is Back in the Driver’s Seat

Like much of the Chinese economy, the insurance market in China is a complex mix, partly market driven, partly state controlled. In Auto insurance, the government has decided that its attempt to let the commercial marketplace deliver universal third-party liability coverage has not worked, and the central authority is now launching a standardized state-controlled system to accomplish the task. Recently issued regulations have the potential to impact every company with operations (or investments) in China where company cars are used.

Starting July 1, 2006, new rules dictate the specifics of Road Accident Liability policies, from fixed limits of indemnity to premiums. Chinese insurers will now have to be approved to sell the coverage. Only Chinese companies are allowed to sell Auto insurance in China.

The move toward demanding Auto Liability insurance dates from the China Road Traffic Safety Law of May 1, 2004, which stipulated that all vehicles used on the road must have effective third-party liability coverage. Since then, third-party liability insurance has been offered by the local commercial insurance market with varying terms and conditions. However, the China Insurance Regulatory Commission (CIRC) estimated that in 2005, only 35 percent of all vehicles were properly insured. As a result, many road accident victims did not receive timely or adequate compensation, a problem that has grown as the number of cars in China explodes.

In March 2006, the CIRC announced its intentions to reinforce the China Road Traffic Safety Law by taking a more active role. Below are key provisions from the Automobile Road Accident Liability Compulsory Insurance (ARALCI) Regulations that are now in force.

Excerpts from the Regulations

- **Article 2 (excerpt)** – “Owners or Administrators of all vehicles used on a road within the boundaries of the People’s Republic of China should be in accordance with the provisions of the China Road Traffic Safety Law covering Automobile Road Accident Liability Compulsory Insurance (ARALCI).”

- **Article 3** defines ARALCI as a compulsory insurance which will, subject to limit of liability, indemnify the victims of road accidents, other than the insured or persons inside the vehicle, against any bodily injury and property damage losses.

- **Article 5** states that only authorized Chinese insurance companies can provide ARALCI.

- **Article 6** sets forth the intention of the CIRC to standardize terms and conditions as well as premiums for ARALCI.

- **Article 10** asserts that insureds may choose an authorized insurer from which to buy ARALCI cover and that the selected insurance company cannot refuse or delay providing cover.

- **Article 12** requires that an “evidence of insurance” sticker be displayed in each insured vehicle.
• **Article 14** prevents insurers from terminating policies unless the insured has failed to disclose material facts.

**Key Features of ARALCI**

**Coverage:** third-party bodily injury and/or property damages

**Limits of indemnity**

1. Death or disablement: RMB 50,000 ($6,250)
2. Medical expenses: RMB 8,000 ($1,000)
3. Property damages: RMB 2,000 ($260)

**Special features**

- Drivers and passengers of the insured’s vehicle are not regarded as third parties.
- Limits of indemnity are maxima per incident; when more than one party is involved, the parties are to share the maximum single limit of indemnity.
- Terms and conditions, as well as premium, are standardized.
- Limits of indemnity will be reduced if the insured is not or is only partially at fault in the road accident.
- ARALCI does not cover indirect non-physical losses of the third party.
- ARALCI does not cover any legal costs or expenses.
- Limits of indemnity under ARALCI are not necessarily equal to the insured’s legal liability that may be determined by a court of law should a road accident lead to legal action.

**Recommendations**

In view of the restrictive coverage options given under the new ARALCI regime, Willis recommends that organizations with cars in China consider additional commercial automobile insurance, including:

- Bodily injury and property damages for the driver and passengers inside the vehicle
- Increased limits of indemnity to, if possible, RMB 1,000,000 ($125,000) for each and every loss, although the market is currently prepared to offer a maximum of RMB 500,000 ($62,500)
- Coverage for legal costs and expenses in addition to limits of indemnity
- Coverage for all liabilities to which an insured may be exposed

**Contacts**

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