

PANORAMIC

# INSURANCE LITIGATION

China



LEXOLOGY

# Insurance Litigation

Contributing Editors

**Elizabeth Bower, James Fitzmaurice and Jocelyn Sher**

Willkie Farr & Gallagher LLP

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# Contributors

## China

AnJie Broad Law Firm

**AnJie Broad**  
安杰世泽律师事务所

Wang Xuelei

wangxuelei@anjielaw.com

Wan Jia

wanjia@anjielaw.com

Cui Wei

cuiwei@anjielaw.com

Wu Shanshan

wushanshan@anjielaw.com

## LEGAL AND PROCEDURAL FRAMEWORK

### Legal framework

#### What legal framework applies to insurance coverage disputes, including legislation or judicial precedents?

China boasts a comprehensive framework that operates as a multi-layered system integrating legislation, judicial interpretation, administrative regulation and case law.

##### Core legislative framework

The foundational legal hierarchy consists of three primary statutes. The Civil Code's Book III on Contracts establishes the general principles of contract law governing insurance contracts – including formation, interpretation, performance and breach of contract – thereby providing the overarching legal infrastructure. The Insurance Law functions as the specialised statute regulating insurance activities. Lastly, the Civil Procedure Law, through articles 21 and 24, determines the jurisdictional venue, permitting plaintiffs to file suit in courts where the defendant is domiciled or where the insurance subject matter is located, a provision of particular significance in property and liability insurance disputes.

##### Judicial interpretation system and judicial precedents

The Supreme People's Court has issued four judicial interpretations. They are authoritative and universally binding on all courts in China, effectively filling legislative gaps with detailed adjudicative rules.

Besides, the Supreme People's Court's Guiding Cases also serve a pivotal function in judicial practice. According to article 9 of the Guiding Opinions of the Supreme People's Court on Unifying the Application of Laws and Strengthening Similar Case Retrieval (for Trial Implementation), where any case retrieved is a guiding case, the people's court concerned shall issue its judgment by reference to such case, except for any conflict with new laws, administrative regulations or judicial interpretations, or any case that is replaced by a new guiding case.

##### Administrative regulatory framework

The National Financial Regulatory Administration (NFRA), as the regulatory authority for the financial and insurance sector, also issues binding departmental rules that directly impact coverage determinations. In China, insurance is a heavily regulated sector and in many cases, when adjudicating coverage disputes, courts will reference regulations issued by the NFRA as industry practice, or directly correspond with the NFRA to inquire about the issues involved in the case.

**Law stated - 5 December 2025**

### Fora

## In what fora are insurance disputes litigated? How is the appropriate forum determined?

### Hierarchical jurisdiction

In China, there are four levels of courts: the primary courts, the intermediate courts, the high courts and the Supreme People's Court. These courts have first-instance jurisdiction over civil cases, including insurance cases. Normally, the primary court will act as the first-instance court in most insurance cases; however, if the amount in dispute reaches a certain level or if the case exerts significant influence on society, the primary court will cede its jurisdiction to an intermediate or even high court. Specifically, if the amount in dispute for a civil case is less than 500 million yuan (not including), the primary court will have jurisdiction; if the amount is between 500 million yuan (including) and 5 billion yuan (not including), an intermediate court will have first-instance jurisdiction; and if the amount exceeds 5 billion yuan (included), the high court will have first-instance jurisdiction. It is rare for the Supreme People's Court to hear a case at first instance. Also, an intermediate-level court will have first-instance jurisdiction over foreign-related civil and commercial cases with large amounts of disputed subjects by implementing different amounts in dispute according to different regions.

If any party is unsatisfied with the judgment or verdict of the first-instance court, it may bring an appeal to a higher court within the period of time prescribed. The judgment or verdict of the appellate court will be binding. The only remedy against the binding judgment or verdict can be found in the legal review procedure; however, it is rare and difficult to kick-start this procedure.

### Territorial jurisdiction

An insurance dispute will fall under the jurisdiction of the Chinese court where the domicile of the defendant or the insured object is located.

However, some exceptions exist. For instance, since 26 March 2021, the Beijing Financial Court hears insurance disputes over which the Beijing Intermediate People's Court has first-instance jurisdiction. The Beijing Financial Court will also try the appeals for insurance disputes.

**Law stated - 5 December 2025**

## Causes of action

### What causes of action are available to both insureds and insurers? When do insurance causes of action arise?

Concerning property insurance cases, the statute of limitations for an insured to claim indemnification or payment of the insurance benefits against the insurer is two years. The statute of limitations begins as of the day when the insured knew or should have known of the occurrence of the incident covered by the insurance policy.

Concerning life insurance, the statute of limitations is five years, which also starts from the day when the insured knew or should have known of the occurrence of the incident.

On 1 October 2017, the [General Rules of the Civil Law of the People's Republic of China](#) (General Rules of the Civil Law) came into force, in which article 188 stipulates that 'the statutory limitation applicable to a people's court for protection of civil rights is three years, unless otherwise provided by law'. After the General Rules of the Civil Law came into effect, most courts conceded that the statutory limitation for an insured to claim indemnification or payment of insurance benefits against an insurer, in property insurance cases, is three years, while in life insurance cases it remains five years. Article 188 was incorporated into the newly released [Civil Code of the People's Republic of China](#), which came into force on 1 January 2021.

**Law stated - 5 December 2025**

## Limitation periods

### What limitation periods apply to insurance-related causes of action?

In China, the limitation periods for insurance-related causes of action are primarily governed by the Civil Code and the Insurance Law.

#### Non-life insurance policy

Under article 26 of the Insurance Law, the limitation period for a claim by the insured or beneficiary under a non-life insurance policy – seeking compensation or payment of insurance proceeds – is two years. This provision was originally aligned with the then-applicable General Principles of the Civil Law, which prescribed a general limitation period of two years.

However, the General Rules of the Civil Law (which were later superseded by the Civil Code in 2021) came into effect on 1 October 2017 and extended the general limitation period for civil claims from two to three years. Notably, the Insurance Law has not been amended to reflect this change. The current Civil Code continues to provide that the general limitation period for civil claims is three years.

This divergence between the special limitation period under the Insurance Law and the general rule under the Civil Code has given rise to interpretive uncertainty in judicial practice. To date, however, Chinese courts have predominantly applied the three-year limitation period in insurance disputes, treating the Civil Code as the prevailing general law.

#### Life insurance policy

According to article 26 of the Insurance Law, the limitation of action period in respect of a claim for payment of insurance monies by the insured party or the beneficiary of a life insurance policy from the insurer shall be five years, commencing from the date on which it becomes aware or should be aware of the occurrence of the insured event.

#### Maximum limitation period

According to article 188 of the Civil Code, the maximum limitation period (regardless of the type of claim) is 20 years, which applies in cases where the cause of action is not asserted

within the ordinary limitation period. Under special circumstances, the people's court may decide to extend the limitation of action upon application filed by the obligee.

Suspension or interruption of the limitation period

The limitation period may be suspended or interrupted, in accordance with the Civil Code, (1) when certain legal obstacles exist, such as the claimant being under a legal incapacity (eg, being a minor or mentally incompetent), and (2) if the claimant actively takes legal action (eg, filing a lawsuit) or if the defendant acknowledges the debt.

After interruption, a new limitation period begins to run.

**Law stated - 5 December 2025**

### **Preliminary considerations**

#### **What preliminary procedural and strategic considerations should be evaluated in insurance litigation?**

The following aspects are always considered in insurance litigation.

Validity of the insurance contract

Standardised boilerplate clauses provided by the insurer are deemed to be void as they are in violation of the law; or instance, clauses exempting the insurer from any legal obligation or aggravating the liability of the insurance applicant or the insured, and clauses excluding any legal right of the insurance applicant, the insured or the beneficiary. Other issues that will render the policy void include, but are not limited to, fraud, violation of compulsory provisions of law and regulations, and violation of the public interest.

Insurance assessment report

An insurance assessment report made before litigation is not binding on the court or tribunal, but it can be used as a reference. If the court or tribunal deems it necessary, it can retain another loss adjuster to make an assessment again during the litigation procedure.

Duty of disclosure of the insurance applicant

In concluding an insurance contract, the insurance applicant must provide truthful information when the insurer enquires about the subject matter insured or relevant circumstances concerning the insured. The insurer has the right to rescind the insurance contract if the insurance applicant intentionally or out of gross negligence fails to fully perform his or her duty of disclosure, thus affecting the insurer's decision on underwriting or increase of premium rate. Where a policyholder failed to perform such obligation intentionally, the insurer shall not be liable for compensation or payment of insurance monies for an insured event that occurred before rescission of the contract, and the premium shall not be refunded. Where a policyholder failed to perform due to gross negligence that has a serious impact on the occurrence of an insured event, the insurer shall not be liable to

make compensation or payment of insurance monies for the insured event occurred before rescission, but the premium shall be refunded.

Where an insurer is aware that the policyholder has not provided truthful information when concluding the contract, the insurer shall not rescind the contract; upon occurrence of an insured event, the insurer shall be liable for compensation or payment of insurance monies.

Specific explanation obligation of the insurer

For those clauses that exempt the insurer from liability in the insurance contract, the insurer shall sufficiently warn the insurance applicant of those clauses in the insurance application form, the insurance policy or any other insurance certificate, and expressly explain the contents of those clauses to the insurance applicant verbally or in writing. If the insurer fails to make a warning or express explanation thereof, those clauses shall be void.

Decision of the insurer

The insurer shall, after receiving a claim from the insured or the beneficiary, adjust the claim in a timely manner. If the circumstances are complex, the insurer shall complete the adjustment within 30 days, unless the insurance contract provides otherwise.

Payment of premiums

Upon conclusion of an insurance contract, the policyholder shall pay premiums pursuant to contractual provisions. Some contracts may specify the fulfilment of premiums as a precondition for a contract to come into effect, whereas others may not.

**Law stated - 5 December 2025**

## Party selection

### How should policyholders determine which parties to include in an insurance lawsuit?

To determine which parties to include in an insurance lawsuit, policyholders should follow these steps based on the key principles outlined in Chinese insurance law:

- Primary defendant: the insurer (insurance company) – according to the Insurance Law and the Civil Procedure Law, the primary defendant in any lawsuit initiated by the policyholder is typically the insurer (the company providing coverage). This is because the insurer is directly responsible for fulfilling the terms of the insurance contract, including claims payments.
- Other potential defendants (depending on the circumstances) – in certain cases, policyholders may need to include additional parties in the lawsuit. These parties could include:
  - insurance agents or insurance brokers – according to articles 127 (agent's responsibility) and 128 (broker's responsibility) of the Insurance Law, if the agent misled the policyholder during the sales process or, failed to provide

necessary explanations (eg, not informing the policyholder about policy exclusions), or if the broker's actions caused harm due to negligence, the agent/broker can be included as defendants; and

- co-insurer or reinsurer – in cases where the insurance contract is part of a co-insurance agreement, where multiple insurers are involved, all co-insurers should be named as defendants. In reinsurance contracts, based on the 'cut-through' clause, the original insured (policyholder) may directly claim against the reinsurer when the primary insurer (ceding company) becomes insolvent or fails to meet its payment obligations.

**Law stated - 5 December 2025**

## **Damages**

### **What remedies or damages may apply?**

There are two kinds of remedies or damages in insurance litigation: (1) payment of insurance benefits, and (2) compensation for loss, which includes repair or replacement. The insurer will also bear liability for delayed payment, which will always consist of bank interest accrued during the delay period.

In China, there is a clear difference between contractual liability and tort liability and, in an insurance dispute, even if a party conducts a breach of the insurance contract with malicious intent, it will not incur tort liability or punitive damages.

**Law stated - 5 December 2025**

## **Damages**

### **Under what circumstances can extracontractual or punitive damages be awarded?**

Chinese courts typically do not award punitive damages against insurers. In light of the insurer's obligation of compensation or payment of insurance monies in a certain period of time, where the insurer intentionally failed to perform such obligation, the Chinese courts may also uphold the insured's or the beneficiary's claim for loss of interest during the period of delayed performance. The interest is calculated based on the loan prime rate issued by the People's Bank of China. Where the insurer does not perform the obligations for money payment within the period stipulated in a judgment, the insurer shall pay an amount double the interest on the debts during the deferred performance period.

In refusing permission to perform the obligation of indemnification, an insurer risks being ordered by the NAFR to make a correction and being subject to a fine ranging from 50,000 yuan to 300,000 yuan. Where the case is serious, its scope of business may be restricted or ordered to stop accepting new business or the business permit be revoked.

**Law stated - 5 December 2025**

## **INTERPRETATION OF INSURANCE CONTRACTS**

## Rules

### What rules govern interpretation of insurance policies?

Pursuant to the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of the General Rules of Contract of the Civil Code of the People's Republic of China, generally, the interpretation of a contract should be based on the general meaning, often referred to as 'semantic interpretation', combined with the relevant terms, the nature and purpose of the contract, customary interpretation and the principle of good faith, and also pursuant to factors such as the background, negotiation process and the performance behaviour to justify the meaning a disputed term.

#### Unfavourable interpretation

Where a dispute over an insurance contract concluded by adopting the standard clauses provided by the insurer, interpretation shall be made based on common understanding. Where there are two or more interpretations, the people's court or the arbitral tribunal shall interpret the clause in favour of the insured party and the beneficiary.

#### Special interpretation

Where the contents are inconsistent in the insurance contract, the proposal form outweighs any other insurance certificates, the non-standard clauses outweigh the standard clauses; the handwritten signed and sealed certificate outweighs the printed version.

**Law stated - 5 December 2025**

## Coverage components and burden of proof

### How do courts interpret coverage grants and conditions precedent, compared with exclusions?

Because of the different natures of these clauses, Chinese courts apply distinctly different interpretive frameworks to coverage grants, conditions precedent and exclusions.

#### Conditions precedent

'Conditions precedent' are procedural threshold requirements that must be satisfied before the insurer's duty to indemnify even arises. They regulate whether the claim process can be initiated, not whether the risk itself is covered.

Courts look for explicit language such as 'only after fulfilling the following requirements' or 'subject to ...'. Ambiguous procedural clauses will not be elevated to conditions precedent. If a clause appears in an 'additional clause' or 'general conditions' section rather than the main policy's 'exclusions' provision, it is presumptively a condition precedent, not an exclusion.

#### Coverage grants

Coverage grants define the scope of risks the insurer agreed to assume. They are interpreted liberally to effectuate the insured's reasonable expectations. Courts must read the insuring agreement together with coverage extensions, definitions and exclusions as a cohesive whole. An isolated reading that narrows coverage is prohibited.

#### Exclusions

Exclusions function as 'risk backstops' that remove specific hazards from the otherwise broad coverage grant. They are interpreted restrictively against the insurer, so exclusions must be clear, unambiguous and specific. Exclusions that are buried in fine print or use cryptic language may be invalidated. The Shanghai Financial Court warned that 'after collecting premiums, insurers cannot evade liability through technical, boilerplate interpretations of exclusion clauses'.

**Law stated - 5 December 2025**

### **Coverage components and burden of proof**

#### **Which party bears the burden of proof for each?**

In Chinese insurance litigation, the burden of proof is allocated asymmetrically between the parties, reflecting the law's protective stance toward the insureds.

That said, the insured or policyholder initiating a claim shoulders the fundamental burden of establishing several core elements: it must prove the existence of a valid insurance contract through policy documents, endorsement records and premium payment receipts; demonstrate that the loss or event falls within both the coverage period and the definition of an insured peril; quantify the extent of damage through assessments, medical records, repair invoices or expert evaluations; and establish the causal link that the loss was directly caused by an insured peril under the proximate cause standard.

Conversely, when an insurer seeks to defeat a claim, it must carry its own substantial evidentiary burdens. It must prove that the loss is not covered under the policy or falls within a specific policy exclusion or exception, keeping in mind that ambiguity in such exclusion clauses might be construed against it. The insurer must also establish grounds for contract rescission or denial, such as material misrepresentation or non-disclosure by the insured at inception under article 16 of the Insurance Law, or fraudulent claims under article 27. Additionally, the insurer should demonstrate that it fulfilled its underwriting duties by highlighting and adequately explaining exclusion clauses, as mandated by article 17.

**Law stated - 5 December 2025**

### **Ambiguities**

#### **When is an insurance policy provision ambiguous and how are such ambiguities resolved?**

The policy provision becomes ambiguous when the insurer and the insured, or the beneficiary, have different interpretations of the policy provision. If a policy provision is found to be ambiguous, it should be interpreted according to the interpretation rules as follows:

- semantic interpretation;
- systemic interpretation;
- contract aim-based interpretation;
- utmost good- faith interpretation;
- special interpretation;
- customary interpretation; and
- unfavourable interpretation.

Law stated - 5 December 2025

## NOTICE TO INSURANCE COMPANIES

### Provision of notice

#### What are the mechanics of providing notice?

Although Chinese law does not specify the mechanics of providing notice, in practice, emails and letters are generally acceptable and recognised. Yet, oral notice is not suggested when the insured notifies the insurer, as such a method often features a lack of relevant evidence.

Where the degree of peril of the subject matter insured greatly increases during the term of the contract's validity, the insured shall notify the insurer in a timely manner as agreed upon in the contract, and the insurer may increase the insurance premium or rescind the contract as agreed upon in the contract.

Law stated - 5 December 2025

### Types of notice

#### What types of notice are recognised or commonly used in your jurisdiction?

Under Chinese insurance law and practice, several distinct types of notice are statutorily recognised and form the backbone of policy compliance.

##### Notice of loss

The foundational obligation is the notice of loss mandated by article 21 of the Insurance Law, which requires that the insured, beneficiary or other claimants notify the insurer promptly upon becoming aware of any insured event. This universal duty applies across all lines of insurance – from property and liability to life and health coverage – and carries significant consequences: while the law excuses minor delays, it permits insurers to deny coverage for losses that cannot be properly investigated due to intentional, fraudulent or grossly negligent late notification.

##### Notice of claim

In the specific realm of liability insurance, the notice of claim obligates the insured to alert the insurer immediately upon receiving any formal demand, lawsuit or written assertion of liability from a third party – a requirement that policies often extend to potential claims even before actual litigation commences. It is critical for ensuring that insurers can mount timely defences, control settlements and manage their exposure under liability programmes.

#### Notice of circumstance

The notice of circumstance serves an even more sophisticated function, particularly in claims-made policies such as professional indemnity and directors' and officers' (D&O) insurance. This mechanism allows an insured to 'lock in' coverage during the policy period by notifying the insurer of circumstances that may reasonably be expected to generate a future claim, thereby preserving protection even if the actual claim materialises after the policy expires.

#### Notice of increased risk

Article 52 of the Insurance Law requires that the insured promptly notify the insurer if, during the policy period, the risk profile increases substantially beyond what was contemplated when the contract was formed. This obligation is particularly salient in property insurance, where changes in occupancy, use or hazard levels – such as converting a standard warehouse to chemical storage – can fundamentally alter the insurer's risk calculus. Upon receiving such notice, the insurer retains the right to adjust premiums or terminate coverage, while the insured's failure to report can result in outright denial of claims for losses attributable to the undisclosed risk increase.

**Law stated - 5 December 2025**

### **Notice obligations**

#### **What are a policyholder's notice obligations under both claims-made policies and occurrence-based policies?**

The insurance applicant, the insured or the beneficiary must, in a timely manner, notify the insurer after becoming aware of the occurrence of an incident covered by the insurance policy.

Some claims-made policies may contain a provision that the insured shall, in a specified period (commonly, the insurance period or the discovery period) notify the insurer of the occurrence of an incident covered by the policy or potential circumstances; otherwise, the insurer may reject to indemnify or pay the insurance monies. Some policies may instead specify that the insured shall timely or promptly notify the insurer after being aware of the occurrence.

An insurance applicant also has a duty to cooperate with the insurer defending a claim on its behalf. The insurance applicant must keep the insurer informed of all major case developments, respond to the insurer's reasonable enquiries and notify the insurer.

Specifically, the number of claims and litigation under the D&O liability insurance policies has grown rapidly in recent years due to the increase in securities class actions worldwide. Most D&O liability insurance policies will provide that if notice of a claim is notified as required by the D&O liability insurance policy, then any subsequent notice of claim, alleging, arising out of, based upon or attributable to the facts or wrongful act alleged in that claim will be deemed to have first been made at the same time that the claim was first made, and reported to the insurer on the date the required notices were first provided.

**Law stated - 5 December 2025**

## **Timeliness**

### **When is notice untimely?**

In determining whether the insured has given the notice in an untimely manner, several metrics are employed, as follows:

- the wording of the policy's notice provision;
- the insured's sophistication regarding insurance policies;
- the insured's knowledge of an incident that may trigger indemnification as agreed in the insurance contract;
- the insured's diligence in ascertaining whether policy coverage is available;
- whether the insurer was prejudiced by any late notice; and
- the nature and complexity of the insurance incident.

**Law stated - 5 December 2025**

## **Timeliness**

### **What are the legal or practical consequences of late notice?**

When an insurance applicant, insured or beneficiary intentionally, or due to gross negligence, fails to notify the insurer in a timely manner, which makes it and such failure subsequently renders it difficult to ascertain the nature, cause and/or degree of damage in the insured incident, the insurer shall not be liable for indemnification or payment of the insurance benefits monies for the indeterminable part, unless the insurer has known or should have known the incident in a timely manner through other channels.

In practice, where a late notice damages the subrogation right of the insurer, the insurer may refuse the insured's claim accordingly.

Some cases present insurance contract clauses stipulating that where an insurance applicant, insured or beneficiary fails to notify the insurer in a timely manner, the insurer has the right to refuse the insurance benefit. This policy provision will be deemed void by the Chinese courts because it exempts the insurer from its legal obligation and/or excludes the legal right of the insurance applicant, the insured or the beneficiary (the right to insurance monies).

**Law stated - 5 December 2025**

## INSURER'S DUTY TO DEFEND

### Scope

#### What is the scope of an insurer's duty to defend?

There is no specific legal provision in Chinese laws and regulations that stipulates the insurer's duty to defend the insured. Only article 66 of the Insurance Law provides that if an insured in a liability insurance contract is brought into arbitration or legal proceedings because of the occurrence of an incident covered by the insurance policy that causes loss or damage to a third party, the insurer will bear the cost of the arbitration or legal proceedings, and other necessary and reasonable expenses paid by the insured, unless it is otherwise provided for in the insurance contract.

In practice, some liability insurance policies will provide that where a third party sues the insured, the insurer will have control over the litigation and hence have the obligation to defend the insured. Under such a policy, the insurer will retain a lawyer for defence, determine the settlement, and pay the legal fees and other costs related to the litigation. In the meantime, the insurer will assume liability for insurance indemnification according to the result of the litigation. In some directors and officers liability insurance cases, the policies will provide that, unless otherwise specified in the insurance contract, the insured shall not admit or assume any liability, enter into any settlement agreement, or consent to any judgement without the prior written consent of the insurer.

In the court and/or arbitral proceedings of an insurance dispute, the insurer will defend the insured in the name of the insured rather than in its own name.

**Law stated - 5 December 2025**

### Timing

#### When does an insurer's duty to defend end?

An insurer's duty to defend terminates under four primary conditions under Chinese law:

- It ends when policy limits are exhausted – once defence costs or settlements deplete available funds, no resources remain for legal expenses.
- The duty ceases when a claim falls outside coverage, such as incidents explicitly excluded or unrelated to covered risks.
- Serious violations of cooperation obligations (eg, withholding documents or failing to attend proceedings) can terminate the defence duty, as this hinders effective defence.
- Contract termination ends the obligation, though insurers may remain liable for claims arising from events occurring while the policy was active, depending on termination terms and timing.

**Law stated - 5 December 2025**

### Costs

## | Are defence costs paid within or in addition to the policy limits?

According to article 66 of the Insurance Law, unless the insurance contract specifies otherwise, defence costs – which include arbitration or litigation expenses that the insured must pay when a third-party claim is made – are generally separate from the policy's coverage limits. In other words, the insurer is obligated to cover the defence costs in addition to the sum insured, as long as there are no specific provisions to the contrary in the policy.

The insurer and the insured can also agree to a different arrangement in the policy itself, but such a clause might be considered a limitation or exclusion clause. As a result, under the Insurance Law, the insurer is required to highlight the clauses and make an explicit explanation to the insured and ensure the insured understands its implications. Where there is no highlighting or explicit explanation, such clauses shall be invalid.

**Law stated - 5 December 2025**

## | Failure to defend

### | What are the consequences of an insurer's failure to defend?

If the insurer fails to defend, it will indemnify the insured for the loss incurred by litigation, including the damages awarded by a court or an arbitral tribunal, the legal fees paid by the insured and other costs incurred by the insured, which is subject to the limit of indemnity of the policy.

If the policy prescribes a specific compensation clause for defence violation, the insurer shall be responsible for such compensation in accordance with the specifications of the clause.

**Law stated - 5 December 2025**

## STANDARD COMMERCIAL GENERAL LIABILITY POLICIES

## | Bodily injury

### | What constitutes bodily injury under a standard CGL policy?

'Bodily injury' refers to physical injury, sickness or disease, sustained by a person and, if arising out of the above, mental anguish or death at any time. In practice, bodily injury often excludes mental/psychological distress unless otherwise stipulated in the standard commercial general liability (CGL) policy.

The purpose of liability (casualty) insurance is to cover bodily injury resulting from the negligence or omissions of an insured.

**Law stated - 5 December 2025**

## | Property damage

### | What constitutes property damage under a standard CGL policy?

CGL policies generally define 'property damage' as (1) physical injury to tangible property, including all loss of use of that property – all such loss of use shall be deemed to occur at the time of the physical injury that caused it; or (2) loss of use of tangible property that is not physically injured – all such loss of use shall be deemed to occur at the time of the occurrence that caused it.

**Law stated - 5 December 2025**

## Occurrences

### What constitutes an occurrence under a standard CGL policy?

'Occurrence' under a standard CGL policy refers to an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

An insurer may, in accordance with the provisions of the law or the terms of an insurance contract, directly indemnify a third party for loss or damage caused by the insured under liability insurance. When an insured inflicts damage on a third party and the liability of the insured for indemnity to the third party has been determined, the insurer must directly pay insurance monies to the third party as per the request of the insured. When an insured does not make a request, the third party will have the right to demand payment directly from the insurer.

**Law stated - 5 December 2025**

## Occurrences

### How is the number of covered occurrences determined, and how does this number affect the handling or valuation of a claim?

The following factors determine the number of occurrences:

- agreements about the number;
- definition of occurrence in the CGL policy – CGL policies frequently define 'occurrence' as an accident, including continuous or repeated exposure to substantially the same general harmful conditions. The limit of liability provisions can play an important role in determining how many occurrences are implicated by the underlying claim. A common limit in a liability provision is to state that the insurer's total liability for all damages resulting from any one occurrence will not be more than the limit of liability;
- proximate cause – generally speaking, the same proximate cause leads to the same insurance occurrence and different proximate causes lead to different insurance occurrences; and
- the four unities test – the responsible persons, causation, timing and location are considered.

**Law stated - 5 December 2025**

## **Damages and economic loss**

### **Under a CGL policy, are purely financial or economic losses considered damages 'because of' or 'for' bodily injury or property damage?**

Under Chinese law and standard CGL policy wording, purely financial or economic losses are not considered damages 'because of', or 'for', bodily injury or property damage.

The exclusion of pure economic loss in Chinese CGL policies derives from two fundamental legal provisions that work in concert to establish a strict physicality requirement. Article 65 of the Insurance Law frames liability insurance as covering 'the insured's legally obligated compensation liability to a third party', a provision that courts interpret as mandating a foundation in tort law under the Civil Code. This tort law foundation, articulated in article 1165 of the Civil Code, establishes that liability arises only from infringement of 'civil rights and interests' — a concept Chinese courts have consistently interpreted as excluding standalone financial interests that lack any accompanying physical harm to person or property.

**Law stated - 5 December 2025**

## **Coverage triggers and allocation principles**

### **What events trigger insurance coverage in a CGL policy?**

There are four theoretical events that trigger insurance coverage:

- exposure — a policy is triggered upon the first exposure to the injury-causing or damage-causing event;
- manifestation — a policy is triggered when the damage or injury is discovered rather than when it occurred;
- injury in fact — a policy is triggered when the injury or damage actually occurs; and
- continuous — a combination of trigger types – manifestation, exposure and injury-in-fact leads to an injury that develops over time. A policy is triggered when the time during which exposure to the harmful condition occurred, when the actual damage occurred, and when the damage was manifested or identified.

**Law stated - 5 December 2025**

## **Coverage triggers and allocation principles**

### **How is insurance coverage allocated across multiple insurance policies? Is horizontal exhaustion required or is vertical exhaustion permitted?**

Under Chinese law, double insurance arises when the following requirements are satisfied on a disjunctive basis:

- the subject matter of insurance is the same;
- the insured interest is the same;
- the insured accident is the same;

- there are two or more insurers;
- there are two or more insurance contracts; and
- the total sum insured in multiple policies combined exceeds the insured value.

In the event of double insurance, an insurance applicant shall notify all concerned insurers of relevant information with respect to the double insurance where the event is within their knowledge.

The original legislative purpose of establishing a double insurance legal framework is to accentuate the loss compensation principle under insurance law, preventing the insured from using double insurance to obtain a windfall benefit exceeding the actual loss incurred, and preventing a moral hazard.

An insurance applicant in double insurance may require the insurers to refund pro rata the insurance premium for the excess of the total insured amount and the insurable value. The sum insured paid by all concerned insurers must not exceed the insurable value.

In other jurisdictions, when facing a double insurance scenario, a judge or arbitrator will consider the intention of the policyholder and make decisions accordingly. However, in China the law addresses double insurance on a factual basis and is without regard to the state of mind of the policyholder.

**Law stated - 5 December 2025**

## **Coverage triggers and allocation principles**

### **Are defence costs allocated differently from indemnity costs?**

In the context of Chinese insurance law and the principles governing such policies, defence costs are typically allocated differently from indemnity costs under a CGL policy. The key differences are as below:

- Relationship to policy limits: indemnity costs refer to the payment of compensation to third parties for the damages or losses they have suffered as a result of the insured's actions. These are the costs associated with settling or satisfying a claim, such as paying damages for injury, property damage or other covered losses. They are typically charged against the policy's coverage limits. This means that the total amount of insurance available for settlement or compensation is reduced by the amount paid as indemnity.

Defence costs are the legal and investigative expenses incurred to defend against a covered claim, including attorney fees, court costs, expert witness fees and settlement negotiations. The critical distinction is that under standard CGL policies, defence costs are typically paid outside the policy limits —meaning they do not reduce the available indemnity coverage.

- Allocation and triggering conditions: indemnity costs are only allocated once the insurance liability is confirmed, meaning that the insurer only starts paying indemnity after determining that the insured is legally liable for the claim. This requires the insurer to establish that the event in question is within the policy's coverage. The allocation of indemnity costs is done once the final liability is determined, either through settlement or judgment.

Defence costs need to be allocated much earlier in the process, often as soon as the insured is notified of a claim or a potential lawsuit. Because defence is a preventive and procedural obligation on the part of the insurer, defence costs must be managed from the start of the litigation to ensure that the insured's rights are preserved.

Law stated - 5 December 2025

## Exclusions

### What are common exclusions in a CGL policy?

Chinese CGL policies, while following international market standards, operate within China's regulatory framework under the Insurance Law and National Financial Regulatory Administration. Policy exclusions are explicitly stipulated in filed forms and generally fall into seven key categories that define the boundaries of third-party liability coverage.

The first set of exclusions establishes fundamental liability limits. Coverage is barred for bodily injury or property damage expected or intended by the insured. Similarly, damage to the insured's own property is excluded, reflecting CGL's nature as third-party rather than first-party coverage. Property in the care, custody or control of the insured is also excluded, preventing CGL from covering goods stored for others.

Statutory and regulatory frameworks mandate other exclusions. Employee injuries arising from employment are excluded, falling exclusively under China's mandatory Workers' Compensation Insurance per the Social Insurance Law, with separate employer's liability policies needed to cover gaps. Environmental pollution is broadly excluded under the Environmental Protection Law and Civil Code's strict liability regime, though sudden accidental events may be covered by endorsement.

Specialised risks require dedicated policies. Product recall costs and professional liability claims (eg, medical malpractice, engineering errors) are excluded, necessitating separate product recall and professional liability insurance. Contractual liability is excluded except for 'insured contracts' such as leases and municipal permits, frequently causing disputes in construction and supply chains.

While these exclusions are non-negotiable in standard admitted forms, regulators permit modifications to pollution, contractual liability and product recall provisions through endorsements for additional premiums.

Law stated - 5 December 2025

## FIRST-PARTY PROPERTY INSURANCE

### Scope

#### What is the general scope of first-party property coverage?

First-party property insurance policies generally provide coverage on an all-risks or a named-perils basis.

All-risks policies typically provide coverage for direct physical loss to covered property, subject to listed exclusions. To demonstrate the existence of the coverage under an all-risks policy, the insured is not required to demonstrate that the loss was caused by a peril that is specifically identified in the insurance policy. However, the insured generally carries the burden of demonstrating that a direct and physical loss encumbers covered property. If this burden is satisfied, the loss will be covered unless a contract-specific exemption applies. In general, the insurance company bears the burden of proof to demonstrate that an exclusion clause applies.

Named-perils policies provide coverage for specifically listed risks, usually with a coverage grant for direct physical loss to covered property caused by a peril listed, unless the loss is excluded. This means that coverage exists if the loss, in addition to being a direct physical loss, is specifically listed in the perils specified by the insurance policy and does not fall within an exclusion clause. To obtain coverage, an insured must therefore identify a named peril that potentially provides coverage for the loss.

It is common for property insurance policies to provide all-risk coverage for some of the insured's property and named-perils coverage for other property.

**Law stated - 5 December 2025**

## Valuation

### How is property valued under first-party insurance policies?

When an insurance applicant and an insurer have agreed upon and specified the insurable value of the subject matter insured in the insurance contract, it will be the standard for calculation of indemnity when losses occur to the subject matter insured. If the insurer can demonstrate that the agreed insurance value was determined owing to fraud or misunderstanding, the Chinese courts could overrule this value, but this only happens in rare circumstances.

When the insurance applicant and the insurer could not reach an agreement regarding the insurable value of the subject matter insured, the value of the subject matter insured will be the actual value of the subject matter when losses occur, and this actual value should be assessed by a claims adjuster or other independent organisations.

The sum insured must not exceed the insurable value. In the event where sum insured exceeds the insurable value, the excessive part shall be deemed invalid, and the insurer shall refund the corresponding amount of the insurance premium to the insurance applicant.

When the sum insured is less than the insurable value, the insurer shall bear an obligation for indemnity on a pro rata basis between the insured amount and the insurable value, unless otherwise provided for by the insurance contract.

**Law stated - 5 December 2025**

## Natural disasters

### Is insurance available in your jurisdiction for natural disasters and, if so, how does it generally apply?

Natural disaster risks are covered by most Chinese insurance companies nowadays. Natural disaster public liability insurance is a new type of insurance developed in recent years aimed at covering natural disasters. It is insurance whose contributions are made by local governments and the injuries and fatalities suffered by insured residents, which are caused by natural disasters such as storms, rainstorms, cliff collapses, lightning strikes, floods, tornadoes, squall lines, typhoons (tropical storms), tsunamis, debris flows, landslides and hail, are indemnified.

On 12 May 2022, the China Banking and Insurance Regulatory Commission stated the necessity to accelerate the construction of a multi-hazard liability insurance system that covers losses of earthquakes, typhoons, floods, heavy rainfall, mudslides and other disasters. Even though the system has not been completely constructed yet, more than 10 provinces and cities have carried out practical exploration and accumulated catastrophe insurance pilot experience based on their own natural disaster risk characteristics.

**Law stated - 5 December 2025**

### **Natural disasters**

**Are there government-backed or state-supported insurance schemes specifically for natural disasters in your jurisdiction?**

China has established a comprehensive, government-backed catastrophe insurance system anchored by the Emergency Response Law (revised in 2024), which mandates state development of catastrophe risk insurance through market mechanisms. This statutory foundation is reinforced by State Council directives from 2024–2025 requiring multi-channel safeguard mechanisms and active commercial insurance utilisation. Financial support flows through Ministry of Finance premium subsidies for residential and agricultural policies, catastrophe reserve funds at central and provincial levels, and reinsurance via China Reinsurance (Group) Corporation.

The framework rests on three core programmes. Firstly, The Urban and Rural Residential Catastrophe Insurance, launched in 2016 and expanded in 2024, protects primary residences against earthquakes, typhoons, floods and landslides. Secondly, Agricultural Catastrophe Insurance, the system's most mature component, provides multi-perils crop coverage within the National Agricultural Insurance framework. It receives the highest subsidy levels across all insurance lines at 75 to 85 per cent of premiums, supplemented by central government stop-loss reinsurance covering 60 per cent of insurer losses. Lastly, over 15 provincial governments – including Guangdong, Zhejiang and Sichuan – have launched tailored pilot programmes backed by 0.5 to 1 per cent of provincial fiscal budgets.

**Law stated - 5 December 2025**

### **Pandemic**

**Is insurance available in your jurisdiction for pandemic-related losses and, if so, how does it generally apply?**

Pandemic-related losses generally are covered under three kinds of insurance policies: (1) extension coverage of critical illness insurance or medical insurance; (2) insurance policies specifically designed for pandemic disease risks (eg, the covid-19 pandemic); and (3) coverage under business interruption insurance policies. Some insurance companies designed a quarantine insurance policy that provides indemnification to the policyholder or the insured during the quarantine period if the policyholder is quarantined during the coverage period because of the pandemic.

On 7 February 2022, the China Banking and Insurance Regulatory Commission issued the Emergency Circular on Issues Related to Regulating the Operation of Quarantine Insurance Business, which puts forward policy requirements on the sales and promotion of quarantine insurance products – namely, that the insurers shall reasonably stipulate the exclusion clauses and conditions for claims settlement; not engage in one-sided propaganda and malicious speculation; and give sufficient explanations and interpretations on the coverage, exclusions and conditions for claims settlement. Insurers shall take the initiative to provide good service in settlement of claims and shall not reject the settlement of claims without justification.

Law stated - 5 December 2025

## DIRECTORS' AND OFFICERS' INSURANCE

### Scope

#### What is the scope of D&O coverage?

Under Chinese law, there are no specific provisions regarding directors' and officers' (D&O) insurance, except for the [Guidelines on Governance of Listed Companies](#) and the [Measures for the Administration of Independent Directors of Listed Companies](#) issued by the China Securities Regulatory Commission, which provides that a listed company may establish a liability insurance system for independent directors to reduce the risks that may be incurred in the normal performance of duties by its independent directors and may purchase liability insurance for its directors upon the approval of the general meeting of shareholders.

On 7 April 2023, the [Opinions of the General Office of the State Council on the Reform of the Listed Company Independent Director System](#) encouraged the listed companies to purchase D&O insurance for independent directors, and insurers shall be supported in conducting relevant D&O insurance business that meets the needs of listed companies, so as to reduce the risk faced by independent directors in the normal performance of duties.

The parties to D&O insurance generally define D&O policy coverage as follows:

- The insurer will pay on behalf of the insured all loss resulting from a claim first made during the policy period against an insured, except for and to the extent that the company has indemnified the insured;
- The insurer will pay on behalf of the company all loss pertaining to a claim first made during the policy period against an insured to the extent that the company has indemnified the insured; and

- The insurer will pay the loss of the company arising from security claims.

Law stated - 5 December 2025

## Litigation

### What issues are commonly litigated in the context of D&O policies?

Issues that are commonly litigated in the context of D&O insurance are those where the insurance applicant fails to make an honest disclosure about any pecuniary embarrassment or investigation by the government when he or she is concluding or renewing an insurance contract.

The disclosure obligation of the insurance applicant will be limited to the scope and the content of the inquiry made by the insurer. If the concerned parties have any dispute over the scope and the content, the insurer shall bear the burden of proof. In addition, if the insured is a listed company, the insurer may require the insured to make a disclosure even if this kind of information is published on the government's website or has entered the public domain.

Where the insurer is aware, at the time of conclusion of the contract, that the policyholder has not provided truthful information, the insurer shall not rescind the contract; upon occurrence of an insured event, the Chinese courts will uphold that the insurer shall be liable to make compensation or payment of insurance monies.

Liability under another jurisdiction potentially gives rise to further dispute. On 25 December 2021, the [Measures for the Supervision of Liability Insurance Business](#) were published and regulate that liability insurance sold in China should not cover losses of criminal fines and administrative penalties, which triggers disputes over whether fines or penalties issued by foreign criminal or administrative agencies could be covered.

Law stated - 5 December 2025

## CYBER INSURANCE

### Coverage

#### What type of risks may be covered in cyber insurance policies?

According to the Interim Measures for the Supervision of the Cyber Insurance Business (currently effective) issued by the China Banking and Insurance Regulatory Commission (CBIRC), insurance companies can operate cyber insurance business in the following areas:

- personal accident injury insurance, term-life insurance and whole-life insurance;
- household property insurance, liability insurance, credit insurance and surety insurance insured for applicants or the insureds personally (personalised for applicants or insureds);
- property insurance business that could achieve full services of sale, underwriting and settlement of claims independently and completely online; and
- other insurance stipulated by the China Insurance Regulatory Commission (now the CBIRC).

Law stated - 5 December 2025

## Litigation

### What cyber insurance issues have been litigated?

The most frequently litigated cyber insurance issues include:

- whether the cyber insurance contract was duly formed. The court generally holds that an insurance contract can be concluded online. The key to the establishment of the insurance contract is whether the applicant and the insurer had a unanimous declaration of will;
- whether the electronic signature of the policyholder or the electronic seal of the insurer is effective, which relates to the validity of the insurance contract; and
- whether the insurance company properly reiterated and explained the exemption clause(s) in the insurance contract during the online underwriting process, and adequately discharged its obligations under the Insurance Law. Judicial holdings are granting that insurance companies can operate a cyber insurance business by entering into electronic insurance contracts but must still abide by the Insurance Law and clarify standard terms that would otherwise be invalid if exempting the responsibilities of the insurers.

Law stated - 5 December 2025

## TERRORISM INSURANCE

### Availability

#### Is insurance available in your jurisdiction for injury or damage caused by acts of terrorism and, if so, how does it generally apply?

In China, insurance companies sometimes include terrorism as an additional risk under an insurance policy. Moreover, because there have been few terrorism incidents in China, Chinese insurance companies have yet to develop a comprehensive system to process and settle claims for terrorism, and the Chinese insurance companies often exclude terrorism from coverage in insurance policies.

Law stated - 5 December 2025

## UPDATE AND TRENDS

### Key developments of the past year

#### Are there any emerging trends or hot topics in insurance law in your jurisdiction?

Agricultural insurance litigation

Due to the impact of global environmental pollution, climate change and natural disasters, disputes over agricultural insurance policies have increased. The central issue(s) in agricultural insurance disputes often lie in the validity of terms and the applicable methodology in calculating losses.

The [Measures for the Administration of Underwriting and Claim Settlement of Agricultural Insurance](#) and the [Statistical System for Green Insurance Business](#), published in 2022, further improves the entrustment mechanism between the insurance companies and assisting institutions. Also, the [Agricultural Insurance Actuarial Provisions \(Trial\)](#), effective since 1 September 2023, stipulates different rate adjustment coefficients for different kinds of products and require insurers to improve the premium adequacy testing procedures for agricultural insurance and assess the premium insufficiency reserve.

National Administration of Financial Regulation

In March 2023, the State Council Institutional Reform Proposal came into effect and approved the establishment of the National Administration of Financial Regulation (NAFR) as an institution directly under the State Council. The duties of the People's Bank of China in routine regulation of financial entities and protection of financial consumers, as well as the duties of the China Securities Regulatory Commission in protecting investors, are assigned to the NAFR. With this transition, the China Banking and Insurance Regulatory Commission ceases to exist.

Consumer rights protection

To protect financial consumers' rights and interests and advance the operation of the industry, the NAFR published the [Measures for the Administration of Insurance Sales Activities](#) to regulate insurance sales according to different stages – namely, pre-insurance, insurance sales and post-insurance sales – and establish insurance product description and grading rules.

D&O insurance

Directors' and officers' liability insurance (D&O insurance), initially introduced in the London financial market, was not widely embraced in China until the recent elevation of disclosure duties imposed on public-listed companies and the professional risks upon the directors and officers by the State Council and the NAFR. Alongside the development of the securities and insurance markets, and the impact of the pandemic, D&O insurance has been on the rise in the Chinese market.

Geopolitical events

Geopolitical events and sanctions are exerting a significant impact on the insurance industry, necessitating a reevaluation of risk exposure and policy specifications. This influence is particularly evident in the wake of recent developments, such as Russia's military campaign in Ukraine on 24 February 2022, which had far-reaching consequences for both the global geopolitical landscape and the insurance sector.

**Law stated - 5 December 2025**