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The Virtual Supervision of Foreign Insurance Leads to the Spread of Financial Risks

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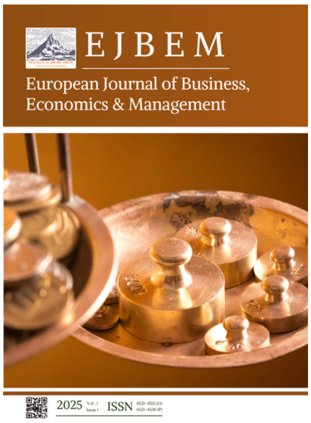

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Abstract: The expansion of foreign insurance companies in various markets has brought many regulatory challenges. This study aims to reveal the potential threat that the virtualization of foreign insurance regulation poses to financial stability, analyze the reasons behind it, and propose countermeasures. The research focuses on the foreign insurance industry because of its rapid growth in the Chinese market, but the relevant regulatory system is relatively lagging behind. The research focuses on foreign insurance companies due to regulatory loopholes in their business operations, such as blurred insurance license boundaries and insufficient financial risk control, which can potentially trigger systemic risks. However, existing research on the systematic analysis of regulatory fraud in foreign insurance companies is relatively weak, lacking comprehensive risk assessment and response mechanisms. The main focus is on the issue of financial risk spread caused by the lack of regulation on foreign insurance, including vague management of foreign insurance licenses, financial risk spread caused by regulatory virtualization, and the negative impact of financing guarantee system reform. Through case analysis, reveal the risk management blind spots of foreign insurance companies in market expansion. Therefore, establishing a sound risk management system, strengthening insurance takeover mechanisms, and promoting consumer education are the key to solving the problem. Theoretical research has expanded the depth and breadth of insurance regulatory theory, and its practical value lies in providing actionable risk management recommendations for regulatory policy makers. However, research also faces limitations such as data availability and industry complexity, and further in-depth exploration of the regulatory coordination mechanisms of multinational insurance companies in different jurisdictions is needed in the future.

Keywords: insurance; regulation; risk; financing; business

1. Introduction

With the rapid development of the Chinese economy and the continuous advancement of globalization, the financial sector, especially the insurance industry, is facing unprecedented challenges and opportunities. In recent years, foreign insurance companies have gradually entered the Chinese market and hold a significant market share. However, with the gradual penetration of foreign insurance, problems such as lagging regulatory systems, unclear regulatory standards, and regulatory gaps have become increasingly apparent, becoming a breeding ground for the spread of financial risks. The regulatory vacuum of foreign insurance companies in the Chinese market not only leads to lower compliance requirements for their operations and triggers a series of financial risks, posing a potential threat to the stability of the domestic financial market. The insufficient and indirect regulation of foreign insurance companies — referred to here as "virtual supervision"

— and the resulting financial risks have become an important issue in China's current financial regulatory landscape. The trend of China's financial market opening up and foreign investment entering is increasingly deepening, and the regulatory gap and risk issues in the foreign insurance industry are particularly prominent. The blurred boundary of foreign insurance licenses poses significant challenges for regulatory authorities, while regulatory lag leads to ineffective constraints on the operation of foreign insurance companies in the Chinese market, which in turn triggers the spread of financial risks and affects the stability of the financial system. Due to differences in domestic and international financial regulatory standards, as well as institutional challenges brought about by the opening of financial markets, regulatory loopholes in foreign insurance have become an important issue that cannot be ignored in the entire financial system. How to effectively avoid and manage the financial risks caused by the virtual supervision of foreign insurance has become a core issue that urgently needs to be addressed. Aiming to systematically analyze the phenomenon of virtual supervision of foreign insurance, explore the specific financial risks caused by it, and propose feasible suggestions for improving regulatory mechanisms and risk control. This study comprehensively reveals the problems existing in the regulation of foreign insurance, combines successful experiences from domestic and international cases, and proposes policy optimization suggestions, in order to provide theoretical support and practical guidance for enhancing the effectiveness of the financial regulatory system in China. The theoretical basis of the research includes financial regulatory theory, risk management theory, and the theory of co-regulation by legal and market mechanisms. Guided by these theoretical frameworks, the key issues and their root causes in the regulation of foreign insurance are analyzed in depth. Through in-depth understanding and analysis of the insurance industry and its regulatory system in recent years, a solid foundation has been provided for research. Research can not only provide a valuable theoretical basis for policy makers and regulatory authorities, but also help them formulate more effective regulatory measures in practical operations, enhance the transparency and effectiveness of foreign insurance regulation, thereby reducing potential risks in the financial market, promoting the improvement of the foreign insurance regulatory system, promoting the stable development of China's financial market, and providing theoretical guidance and practical support for future financial regulatory reforms.

2. Financial Risks Caused by Insurance Regulatory Vulnerabilities

There are certain loopholes in the regulatory system of the insurance industry, which pose significant risks to the financial market. On the one hand, the imperfect regulatory framework makes it easy for insurance companies to engage in violations in areas such as fund operations and underwriting responsibilities; on the other hand, regulatory authorities have poor adaptability to emerging insurance products and technologies, and are unable to detect potential risks in a timely manner. These regulatory deficiencies have led to the accumulation of risks, undermining the stability of financial markets and potentially triggering systemic financial crises. Therefore, strengthening the regulatory mechanism of the insurance industry is crucial.

2.1. Fuzzy Boundary of Foreign Insurance License Leads to Regulatory Dilemma

Previously, several foreign brokerage firms operating in China were suspended under the Insurance Law of the People's Republic of China due to alleged violations such as conducting business without proper licensing. Yihe Insurance Brokerage Co., Ltd. was instructed by the regulatory committee to shut down its offices in Beijing and Guangzhou, while its chief representatives, Wang Jiacong and Chen Jiehong, received lifetime bans from participating in the insurance industry. Jardine became the second British brokerage accused of overstepping its licensing boundaries. Earlier that year, Sedgwick Insurance and Risk Management Consultant (China) Co., Ltd., headquartered in London, faced a three-month suspension following convictions for multiple illegal actions. The regulatory authority also issued notices to all insurance entities—companies, agents, and brokers—stressing its commitment to strictly uphold applicable laws set by both domestic and international frameworks. In the latter part of the year, American International Insurance Co., Ltd., the Chinese branch of American International Group Limited, halted its sales of life insurance policies to employees after the China Insurance Regulatory Commission required that such policies be classified as unauthorized group life insurance. The commission also imposed penalties on four domestic insurers for noncompliant practices and breaches of regulations. Two of these firms are branches of the People's Insurance Company of China in Guizhou and Shandong, a key state-owned player in the insurance market [1]. The remaining two are local branches of Ping An Insurance Co., Ltd. located in Hunan and Beijing, under the Shanghai headquarters. Issues among these companies included poor internal controls, irregular procedures, and the submission of noncompliant data in vehicle insurance offerings. As a result, one PICC unit and one Ping An branch were ordered to cease operations for a three-month period, while Ping An's Beijing branch was publicly criticized. "Market regulation is essential to risk prevention and better management, which ultimately supports the sound development of the national insurance sector," stated Wu Dingfu, Vice Chairman of the regulatory body.

The examination of China's insurance regulatory framework should begin with the transition in November 1998, when the China Insurance Regulatory Commission (CIRC) officially took over supervisory responsibilities from the People's Bank of China. Unlike the former regulatory structure under the People's Bank of China, the newly formed commission was staffed with significantly more personnel, many of whom possessed relevant experience in the insurance field. According to the Insurance Law, prior to November 18, 1998, the supervision of the insurance sector was primarily handled by the People's Bank of China. However, to implement the separation of regulatory authority and business functions—a principle clearly articulated during the National People's Congress held in March 1998—the People's Bank of China relinquished its supervisory role and transferred the authority to the newly created CIRC. The commission, established by the State Council, was assigned a broad mandate: it would develop industry regulations, enforce compliance, penalize misconduct, safeguard policyholders' rights, and build a framework for risk assessment. It would also be tasked with assessing and approving applications for new insurance entities and monitoring both local and international insurance operators.

The organizational structure of the CIRC consists of eight departments, covering areas such as international affairs, legislation, life insurance, and property insurance. Approximately 100 staff members are employed at its Beijing headquarters, most of whom previously worked in insurance-related divisions of the People's Bank of China or the People's Insurance Company of China. The creation of a dedicated body to oversee insurance matters has received positive reception, largely because it promises a more streamlined and centralized supervisory system. In contrast, the previous arrangement—where regulatory duties were divided among the People's Bank of China, the Ministry of Finance, and the National Audit Office—often led to fragmented oversight and inefficiencies. The direct reporting relationship between the new commission and the State Council is expected to enhance regulatory coherence and strengthen the top-level image of the government in insurance governance [2].

Despite having over one-fifth of the world's population and a high domestic savings rate, China accounts for less than 1% of global insurance premium revenues, although it now ranks as the largest potential insurance market globally. Historically, the country's reliance on a centralized economic model and a state-provided social insurance system hindered the expansion of private insurance offerings, unlike more liberalized international markets. Nonetheless, this trend has been reversing, with commercial insurance gaining more significance. Although still considered a developing sector, China's insurance market is projected by regulatory authorities to experience rapid growth, potentially doubling in size. This projected expansion underlines the importance of having a robust regulatory framework in place to support the industry's evolution.

2.2. Fictitious Insurance Regulation Triggers the Spread of Financial Risks

A senior executive from a prominent Chinese insurance enterprise noted that "Mandatory reinsurance is virtually nonexistent for unit risks that surpass 10% of actual assets combined with the provident fund. The statutory 20% requirement has been significantly misinterpreted." Consequently, in pursuit of expanding their market footprint, certain regional insurers—particularly newer entrants—have diverted both reserves and provident funds to back liabilities, in some instances exceeding tenfold the value of their actual asset base and reserves. There is a general consensus that without a robust regulatory structure, fair market competition is unlikely, thereby undermining orderly economic progression.

During implementation, oversight in areas such as social insurance, reinsurance, and intermediaries is becoming increasingly apparent. Since enacting the Insurance Law, the Chinese authorities have issued regulatory frameworks including the *Regulations on the Administration of Insurance Agents (Trial)*, *Interim Regulations on Insurance Administration*, *Interim Regulations on the Administration of Insurance Brokers*, and additional measures governing the formation and operation of insurance companies, policy management, premium utilization, income from premiums, and reinsurance practices. Nonetheless, substantial regulatory refinement remains necessary, with several legal provisions requiring ongoing adjustment and optimization in the course of implementation. Many international insurance firms have responded positively to China's recent efforts to strengthen its legal framework for insurance [3]. Sources indicate that provisions such as *Regulations Article 1 on Foreign Insurers* and the *Interim Measures for Foreign Insurance Companies* issued by the China Insurance Regulatory Commission are designed to encourage foreign investment and promote stability in the sector.

There is a pressing need to ensure full implementation of the Insurance Law of the People's Republic of China and to formulate comprehensive supporting regulations that can elevate its practical enforceability and facilitate the establishment of a mature insurance marketplace. This law, shaped by various expert committees and grounded in extensive comparative study of Western and Asian insurance systems, serves as a foundational reform aimed at organizing and modernizing China's commercial insurance operations. It is widely regarded by researchers as a significant advancement toward bringing domestic insurance practices in line with global standards of regulatory accountability. The law seeks to harmonize policyholder protection with insurer interests while clearly articulating regulatory responsibilities.

As one high-ranking executive emphasized, "Establishing a well-regulated market grounded in fair competition is the only path to improving the competitiveness of Chinese insurers." The law explicitly states that insurance providers must operate under fair competition principles, forbidding practices such as premium discounts or unauthorized policyholder incentives. It also mandates that regulatory authorities define and oversee the basic terms and pricing structures for major commercial insurance products. For other categories, policy wording and rate schedules must be submitted to regulators for archival purposes.

Currently, a growing number of international insurers have demonstrated interest in entering China's insurance sector. However, if approvals are granted before companies are adequately prepared, they may face obstacles in scaling their investment strategies. The inexperience of some staff in navigating the nascent regulatory environment, coupled with initial focus on narrow market segments, may lead to substantial setbacks for prospective entrants. With the onset of rapid liberalization and China's accession to the World Trade Organization, the crucial issue became whether these foreign insurers were equipped to function effectively in a fully open market. This shift presents major strategic challenges: firms must formulate operational plans that target specific cities and match offerings to local demand. At present, approximately 200 foreign insurers have set up representative offices across China, eager to gain access to a market of 1.2 billion people.

Nonetheless, only a limited number have received operating licenses, which currently restrict them to particular business lines or authorized pilot zones under regulatory oversight.

2.3. Reform of Financing Guarantee System Weakens Risk Buffering Function

The China Banking and Insurance Regulatory Commission (CBIRC) was officially launched to the public with the debut of its website on April 8, 2018. This newly established body replaced both the former China Banking Regulatory Commission and the China Insurance Regulatory Commission, marking a major step forward in deepening institutional reforms. Its mission includes guiding the banking and insurance sectors to enhance service quality and efficiency for the broader economy, signaling the beginning of a new phase. Earlier, on April 2, 2018, a comprehensive set of rules regarding the oversight of financial guarantee companies was released. These rules covered the supervisory responsibilities of departments across provinces, autonomous regions, and municipalities directly under central governance, as well as a wide array of financial institutions—including regulatory bureaus, policy banks, major commercial banks, joint-stock banks, postal savings institutions, foreign banks, financial asset management companies, and others. Attached to the official announcement was the application form and detailed instructions for completing the Business License for Financing Guarantee Business of the People's Republic of China [4].

The competition between China's insurance sector and foreign enterprises is both imminent and unavoidable. This dynamic can be seen as the product of continuous market liberalization and growing demand. In the world's largest insurance market, regulatory innovation and domestic policy changes are expected to shape the structure and characteristics of the emerging insurance economy. China seeks to overcome transitional obstacles and position itself as a key player on the global insurance stage. Although entry into the World Trade Organization played a critical role, China's primary motivation for insurance sector reform lies in maintaining control over the trajectory of opening its market. This is most evident in the tight regulatory scrutiny and the day-to-day oversight of foreign insurers' operations within the country. For those planning to enter the market, thorough preparation is essential. Without a deep understanding of local market dynamics and well-established relationships with Chinese regulators and domestic firms, foreign insurers may struggle to succeed in this still-developing regulatory environment and highly fluid marketplace.

An increasing number of enterprises are recognizing the realities of globalization and the growing importance of operating in a cross-border environment. For some, this signals a major opportunity to scale up internationally; for others, it introduces greater competition within their home markets. In either case, companies must reassess their traditional strategies, particularly in relation to insurance markets. As part of their global expansion efforts, many insurance firms have turned their attention to China's rapidly developing market. Key factors encouraging foreign insurers include China's enhanced political stability, progressive market liberalization, increased privatization of insurance services, and more consistent solvency regulations. Despite its large population, China historically had low commercial insurance penetration, largely because citizens tended to focus on basic survival needs such as food and housing. In recent years, however, this trend has been steadily changing, and the public is gradually becoming more aware of and receptive to insurance products.

The consistent rise in China's insurance premium growth is another clear signal of its market potential. Still, companies aiming to enter this high-growth space must be prepared for significant initial investments of capital, time, and human resources. The sector currently faces limitations in terms of technology infrastructure, regulatory sophistication, and skilled personnel—all of which are vital to sustainable, long-term operations. Although early-stage costs may be high, companies that adopt long-term strategies and demonstrate adaptability are more likely to benefit from the sector's profitability over time. For insurers committed to engaging with developing markets, China presents one of the most promising opportunities globally.

3. Establish New Risk Management Standards for Insurance Companies

With the continuous development of the insurance industry, the demand for risk control is becoming increasingly severe, and traditional risk management models are no longer able to cope with the complex and ever-changing market environment. In this context, it is particularly urgent to establish new risk management standards. The new standards should be tailored to the modern insurance industry and incorporate technologies such as big data and artificial intelligence to enhance risk identification, assessment, and response capabilities. This is not only a necessary step for insurance companies to address external risk challenges, but also helps to achieve sustainable development and innovation driven in the industry.

3.1. Promote the Institutionalization of Consumer Insurance Education Platforms

The parties involved in a certain case purchased insurance products worth a total of 1,549 yuan in September 2020, with issuance dates of May 13, 2018 and September 17, 2017. The product standard is Q/SAC3803R. After investigation, the insurance product does not comply with the national safety standards. The parties have filed a claim against the operator, but have not received a positive response. The parties involved filed a lawsuit with the Huangpu District People's Court in Shanghai, requesting the product operator to refund 1549 yuan and compensate ten times the purchase price of 15490 yuan. The first instance judgment returned the original price of 1549 yuan, and the second instance judgment supported the plaintiff's claim for ten times compensation [5]. Article 55 of the Consumer Rights and Interests Protection Law expands the scope of punitive damages and "tort liability" compared to voluntary laws and regulations, while previously it was "breach of contract liability". The amount of compensation has also been further increased. This promotes the reinforcement of punitive measures and reflects the broader evolution of private law toward stronger consumer protections. For the protection of consumer rights, punitive damages should be applied to meet the needs of reality, which also provides relief measures for consumer rights. As a result of punitive damages, Article 55 (1) of the Consumer Rights Protection Law explicitly states that the calculation shall be calculated based on the price of the goods or three times the service fee, with a minimum claim threshold of 500 yuan. According to the standardized calculation method of sentencing, judicial trials will fully consider the illegal profit purpose of the perpetrator, and further deter commodity producers and operators through punitive compensation. This law also takes into account the asset situation of the perpetrator, and due to the enforceability of sentencing, considers the application of penalties within the range that the perpetrator can bear, in order to comply with the effectiveness of judicial practice. Judicial trials will also consider the degree of fault of the perpetrator. If the perpetrator's malicious intent is significant, they shall be subject to a greater degree of punishment; vice versa.

In judicial practice, how consumers choose to apply it involves a competition of laws and regulations. While punitive damages share certain deterrent and disciplinary functions with criminal law, they are fundamentally a civil remedy and should be clearly distinguished from criminal penalties. In some cases, they may intersect with overlapping legal doctrines. When the operator violates an illegal act but violates multiple laws and regulations, consumers can choose laws and rules that are beneficial to themselves and file punitive damages with the court. In this case, based on the factual circumstances, it may involve relevant legal norms such as the Consumer Rights Protection Law and Tort Liability Law, which can be applied to competing crimes. Punitive damages are a civil remedy imposed on individuals to serve as a deterrent and to reinforce accountability, complementing but not substituting the criminal justice system. Combining public law with private law in illegal activities can achieve the advantage of public-private partnership. The punitive damages system goes beyond compensatory relief by introducing additional civil penalties intended to deter future misconduct, while still ensuring procedural fairness under civil law. Punitive measures need to provide actual compensation to the victims and curb the lucky mentality of commodity producers to prevent future illegal activities from occurring. For non-specific actors, it also constitutes a certain degree of deterrence, which is the result required by the law. The purpose of the punitive damages system is to influence the principles of the parties' behavior, and its function or purpose is to enable the victim to receive corresponding compensation for the unlawful act suffered, and to deter the wrongdoer. Through the relevant mechanisms of private law, the system of public law is gradually realized, reflecting the integration of civil law and criminal law. The parties involved in this case have received effective compensation, which can reflect the legal purpose of Article 55 (1) of the Consumer Rights Protection Law [6]. Legal risks are often considered secondary to commercial interests, and businesspeople may sometimes operate in legal grey areas to maximize profits. If they can maximize their benefits by slightly violating the blurred boundaries of the law, businessmen are eager to try. From a temperament perspective, businessmen are more radical than legal professionals, preferring to be exposed to new things, and preferring to try and face risks. Law and business inherently have completely different ways of thinking and methodologies for dealing with things.

3.2. Strengthening the Definition of Insurance Takeover to Control System Risk

Bankruptcy and takeover of insurance companies are two distinct mechanisms with different legal implications, though both aim to address financial instability within the industry. Insurance company takeover is an administrative measure that is conducive to safeguarding the interests of depositors and ensuring the normal development of the financial system; Bankruptcy is a legal means, although people's savings are lost, it is also a necessary path towards financial marketization and interest rate marketization. The longest period for insurance company takeover is less than two years, usually one year; The bankruptcy of an insurance company requires a series of judicial procedures, which require the approval of the China Banking Regulatory Commission and a formal court declaration of bankruptcy before liquidation can proceed. A takeover allows regulators to exercise full operational control to prevent systemic risks, whereas bankruptcy leads to the cessation of business operations and dissolution of the company. Takeover is generally due to the existence or potential credit crisis, which affects the interests of depositors; Bankruptcy is usually caused by the inability to pay due debts due to financial and management risks. Takeover is to protect the interests of depositors and restore the normal operational capacity of the insurance company. During the process of being taken over, the creditor debtor relationship of the insurance company does not change due to the takeover. The takeover organization only takes over the management rights, and the legal person qualification of the taken over insurance company is not lost. During bankruptcy liquidation, priority should be given to paying the principal and interest of personal savings deposits when paying liquidation expenses (such as labor insurance premiums and outstanding employee wages). Meanwhile, the takeover may result in the bankruptcy of the insurance company [7]. If effective asset writes off, capital injection, institutional restructuring, capital supplementation, and governance system are not carried out, or if debt relationships are not handled properly, insurance companies will still face the risk of bankruptcy. And bankruptcy would result in the cancellation of the insurance company's license.

The relationship between law and business is characterized by both opposition and integration, with their most notable distinction lying in their underlying logic. Regarding the relationship between law and business, in real life, the law should intervene less in commercial activities, fully utilize the effectiveness of market free competition, achieve maximum social benefits, and prevent excessive constraints on business imposed by the law. The free development of the market can enable society to fully develop while effectively allocating resources. However, if there is no legal supervision over business, it will breed a series of corrupt phenomena, which is not conducive to the normal development of society. In the process of judicial practice, legal professionals must fully utilize the two important levers of law and business, and properly handle social fairness and justice while fully leveraging market efficiency. When the commercial market fails, it is necessary to implement strong policy measures to restore market order and ensure stable social development. The law cannot excessively intervene in the development of commerce, cannot fix commercial lines, and must effectively control the market in order to effectively combine commerce with law and achieve normal social development. When dealing with the relationship between law and business, the legality should be evaluated first. If it is not legal, legal means should be used to restrict it; If it is legal, it should encourage the normal development of commerce and reduce excessive intervention in the market. No matter how the leverage of business and law is balanced, it is necessary to fully leverage the power of law and business in order to maintain social order and take into account public interests. With a pragmatic and problem-oriented approach, the relationship between business and law should be effectively handled to maximize their benefits and promote normal social development. The law needs to take into account the needs of people from all walks of life in society, providing a certain space for the balance between law and business. The law cannot address every aspect of social life in a rigid manner, and not all social phenomena can or should be transformed into legal issues for resolution. Business is more exposed in daily life. In order for the law to effectively control society throughout the entire economic activity, it is necessary to maintain it at the societal level. When the law receives commercial support, it can have a positive impact in the hearts of the people. In social life, the handling of many commercial cases is not solely resolved through simple legal means, but also involves complex social factors such as public psychology, culture, and public morality. If business cases are judged solely through the deduction of concepts and the analysis of formal logic in commercial activities, it will hinder the normal development of business. Therefore, law and commerce complement each other, which is actually the relationship between the economic foundation and the superstructure. When business development is prominent, the law will also follow suit and rely on each other [8].

3.3. Establishing a System of Co-Overnance between Law and Business to Standardize Insurance Operations

The most important relationship between law and business lies in the opposition and unity of logic. The inherent flaws of business require legal intervention to maintain balance. If the law is excessively applied, it will hinder the free development of commerce; If legal constraints are weakened during business development, it may undermine the authority of the law and lead to increased risk of unethical or corrupt practices. The relationship between law and business is interdependent — if one fails, the other is inevitably affected. Although law and business have a certain degree of opposition, on the premise of respecting laws and regulations, fully utilizing market efficiency can promote effective social development. The methodology of law emphasizes more on fairness and social justice. Legal research is about drawing specific conclusions about specific problems. Legal professionals are usually good at thinking about the risks behind something and tend to adopt a negative attitude towards new things. The methodology of business, more importantly, considers profit as the goal, emphasizes the management and management of things, pursues efficiency and maximum output of a thing, mainly to achieve benefits. To some extent, business can overlook the fairness of certain groups and achieve the maximization of its own or a group's interests. When there is a certain paradox between business and law, business methods usually seek to maximize profits within the framework of not violating the law. The law, on the other hand, advocates equality for all and hopes for a fair and orderly outcome in society. When dealing with various problems, business ethics will consider various economic costs, benefits, and outputs of business. In some emerging fields, business is more focused on how to maximize market benefits and seize market share. This business philosophy fundamentally differs from the principles of law, as the pursuit of maximum profit may sometimes conflict with legal norms of fairness and equity [9].

The transaction between law and commerce is actually a combination of monetary system, market system, and monopoly system. The development of finance and economy has to some extent promoted the progress of law. The legal framework must first adapt to the development of commerce, and commerce must ensure the orderly development of the law. The law must be guided by the principles of fairness and justice. When the economic development of society is insufficient, the understanding of the law may be limited, resulting in cases handled by the law being affected by economic development, and judicial workers being unable to fully utilize the effectiveness of the law. To some extent, if the economic development of society is hindered, it will actually have many negative effects on society. Under the Internet mode, business has developed rapidly, and many businesses have developed in a new way. Many illegal facts in business are "old wine in new bottles". However, in the process of legal and judicial proceedings, it is necessary to identify new types of scams emerging in commerce in order to ensure the normal development of society. If judges are not proficient and master business logic, it is difficult to effectively handle cases. Therefore, law and business are interdependent and dialectically unified. If judges have a full understanding of the economic, financial, and commercial trade behind the law, they can handle the relationship between the two properly. If judicial workers are unable to apply business thinking, analyze and respond, and rigidly adhere to the legal framework, it will harm the normal development of commercial activities and further damage the normal development of the law. When handling cases, judges must fully consider the boundary between business and law, take into account the differences and similarities between business and law, and fully mobilize the enthusiasm of the market within the framework of law and business in order to maintain normal social order. The relationship between law and business is dialectical unity. Although there are many differences, when a certain pattern is formed in business, law is needed to maintain order [10]. Just like the "monetary system", currency itself belongs to the realm of commerce, but once various currencies and complex commodity markets emerge, the so-called "system" will emerge. At this point, the focus shifted from business to legal aspects. That is to say, in the context of large-scale business, when certain rules and regulations are formed, laws are needed to manage and support the products.

4. Conclusion

The phenomenon of financial risk spread caused by the regulatory virtualization of foreign insurance has attracted widespread attention. Through the analysis of the current insurance regulatory system, a series of financial risks caused by regulatory fraud in the development process of foreign insurance companies in the Chinese market have been revealed. This study takes a holistic perspective and delves into factors such as blurred boundaries of foreign insurance licenses, virtual insurance regulation, and reform of financing guarantee systems, analyzing their potential threats to financial market stability. The core issue of the research is how foreign insurance companies can evade responsibility through regulatory loopholes in an imperfect regulatory system, thereby exacerbating the spread of financial risks. The research focuses on the regulatory difficulties caused by unclear license boundaries of foreign insurance companies, the financial risk diffusion caused by regulatory virtualization, and the weakening of risk buffering mechanisms after the reform of the financing guarantee system. Through a combination of quantitative and qualitative analysis methods, this study reveals how inadequate regulation leads to improper operations by foreign insurance companies in the Chinese market and their negative impact on the entire financial system. The experimental results and discussions indicate that: firstly, the ambiguity of foreign insurance licenses leads to regulatory deficiencies, and some foreign insurance companies operate in a blank space, affecting market fairness; Secondly, the virtualization of insurance regulation has increased the transmission of financial risks, which have spread to the entire financial system as insurance companies expand their operating models. Thirdly, the reform of the financing guarantee system has weakened the existing risk buffering mechanism, greatly reducing the regulatory system's ability to respond even when risks arise, further deteriorating the financial environment. The research aims to explore the phenomenon of regulatory fraud in foreign insurance companies and propose effective policy recommendations through specific case analysis, in order to provide reference for the healthy development of the insurance market. The research method adopts a comprehensive application of policy analysis, case study, and empirical analysis, focusing on examining the regulatory loopholes in the current insurance industry and the financial risks they bring. In theoretical terms, this study provides a systematic analysis framework for the academic community on the regulation of foreign insurance, enriches the theoretical connotation of financial regulation, and especially provides a new perspective on cross-border regulation of foreign-funded enterprises. The practical significance lies in revealing the phenomenon of regulatory virtualization, reminding policy makers to strengthen supervision of foreign insurance companies while promoting market opening, in order to avoid the spread of financial risks. Research has shown that a sound regulatory mechanism is crucial for financial stability, especially in an open market environment where an internationally aligned regulatory system must be established. However, the research also has certain limitations. Due to sample limitations, the analysis mainly focuses on typical cases of foreign insurance companies and cannot cover all different types of foreign insurance companies. Therefore, future research can further examine the impact of foreign insurance companies on financial risk within a wider sample range. In addition, this study failed to delve into the specific operational issues of insurance regulatory reform. Future research can further refine this part and explore how to promote specific improvements in the regulatory system in practice. From an enlightening perspective, the issue of virtual regulation of foreign insurance proposed in this study not only has important warning significance for insurance market regulation in certain emerging markets, but also provides useful reference for financial regulation in other emerging markets around the world. Subsequent research can focus on improving the regulatory framework for foreign insurance, exploring the feasibility of diversified regulatory models, especially how to balance the relationship between market openness and regulatory rigor, and effectively prevent the spread of financial risks. In addition, future research should also focus on how to strengthen communication between insurance companies and consumers, improve insurance education levels, and further reduce risks caused by information asymmetry.

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