

REGULATORY FRAMEWORK — HONG KONG

Overview

The ICO provides the regulatory framework for insurers, reinsurers and insurance intermediaries in Hong Kong and establishes basic guidelines governing various aspects of an insurer or reinsurer's business. The IA, which has been appointed under the ICO, has the authority and responsibility to supervise Hong Kong's insurance industry.

Regulation of Insurance Companies

Authorisation

Companies carrying on insurance business in or from Hong Kong must obtain authorisation from the IA. Authorisation will only be granted to insurers meeting certain requirements under the ICO, which focus on, among other things, the following aspects:

- paid up capital;
- solvency margin;
- fitness and properness of directors and controllers; and
- adequacy of reinsurance arrangements.

In addition, an insurer must meet certain other conditions under the Authorisation Guidelines issued by the IA, which helps to ensure that the insurer is financially sound and competent to provide an adequate level of services to the insured public.

Capital Requirement

The minimum paid-up capital for an insurer carrying on solely general business is HK\$10 million. For a composite insurer (carrying on both general and long-term business) and an insurer carrying on statutory classes of insurance business, the minimum paid-up capital is HK\$20 million.

Solvency Margin

Pursuant to section 42 of the ICO, an insurer is required to maintain at any time an excess of assets over liabilities of a specified amount. For a company carrying on general insurance business only, the specified amount applicable to the company is determined as follows:

- Where the relevant premium income of the company in its last preceding financial year, or the relevant outstanding claims of the company as at the end of its last preceding financial year, whichever is greater, did not exceed HK\$50 million, the specified amount is HK\$10 million.
- Where the said income in that year, or the said outstanding claims as at the end of that year, whichever is greater, exceeded HK\$50 million but did not exceed HK\$200 million, the specified amount is one-fifth of the said income in that year or one-fifth of the said outstanding claims as at the end of that year.
- Where the said income in that year, or the said outstanding claims as at the end of that year, whichever is greater, exceeded HK\$200 million, the specified amount is the aggregate of HK\$40 million and one-tenth of the said income in that year exceeding HK\$200 million or one-tenth of the said outstanding claims as at the end of that year exceeding HK\$200 million.

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For this purpose:

- the relevant premium income of a company in any financial year shall be whichever is the greater of the following amounts:
 - (i) an amount equal to 50% of the gross premium income of the company in that financial year;
 - (ii) the amount obtained by deducting from its gross premium income the amount of any premiums payable by the company in respect of reinsurance; and
- the relevant claims outstanding of a company as at the end of a financial year shall be the aggregate of:
 - (i) an amount equal to 50% of the claims outstanding before deducting any amount recoverable from reinsurers thereon, or the amount of claims outstanding after deducting any amount recoverable from reinsurers thereon, whichever is greater; and
 - (ii) the amount set aside at the end of its financial year, in addition to any unearned premiums, which is considered necessary to meet the cost of claims and expenses of settlement arising from risks to be borne by the insurer after the end of the financial year under contracts of insurance entered into before the end of that year.

To determine a general business insurer's solvency margin, assets are valued in accordance with the Valuation Regulation.

Fit and Proper Person

The directors and controllers of all authorised insurers must be "fit and proper" persons to hold such positions. A controller includes, among others, a managing director, a chief executive, a chief executive responsible for the Hong Kong operation (in the case of a company incorporated outside Hong Kong), a chief executive of an insurer's holding company (only if the holding company is also an insurer), or a person who alone or with any associate or through a nominee is entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of an insurer or of a body corporate of which the insurer is a subsidiary. Prior approval of the IA is required for the appointment of certain controllers, including the chief executive of an insurer. In applying the fit and proper test, the IA will take into account, among other things, the character, qualifications and experience of the directors or controllers of the applicant company. The IA has issued a Guidance Note on "Fit and Proper" Criteria under the ICO which sets out those factors that the IA will take into account in administering the said requirement.

Any change in the directors or controllers of an authorised insurer must be reported to the IA.

Adequate Reinsurance Arrangements

An insurer is required to have adequate reinsurance arrangements in force in respect of the risks of those classes of insurance which are to be carried on by the insurer. In considering the adequacy of reinsurance arrangements of an insurer, the IA will take into account the following factors:

- the type of treaties;
- the maximum retention of the reinsurers;
- the security of the reinsurers; and
- the spread of risks among participating reinsurers.

The IA has issued a Guidance Note on "Reinsurance with Related Companies", which promulgates the standards by which reinsurance arrangements with related companies will be considered adequate by the IA in terms of financial security and how the IA intends to address the supervisory concern if such reinsurance arrangements are not considered adequate.

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Reporting Requirements

The ICO requires a submission to be filed by an insurer annually with the IA of its accounts, statements and other information as required by the ICO. An insurer carrying on general business is additionally required to submit annually to the IA an audited general business return and audited statement of assets and liabilities pertaining to its Hong Kong general business.

Power of Intervention

The IA is empowered under the ICO to take appropriate actions against an insurer where there are causes for concern over that insurer. The purpose is to protect the interests of policy holders and potential policy holders of the insurer against the risk that the insurer may be unable to meet its liabilities or to fulfil the reasonable expectations of policy holders or potential policy holders. These actions include:

- restrictions on effecting new business;
- limitation of premium income;
- restrictions on investments;
- custody of assets by an approved trustee; and
- assumption of control of an insurer.

Maintenance of Assets

The ICO requires an insurer carrying on general business, other than a professional reinsurer and a captive insurer, to maintain assets in Hong Kong of an amount which is not less than:

- (a) the aggregate of (i) 80% of its net liabilities and (ii) the specified amount determined in accordance with “— Solvency Margin” above (except that the gross premium income shall be deemed to be the gross premium income arising from the insurer’s Hong Kong insurance business only, and claims outstanding, additional amount for unexpired risks and fund shall be deemed to be the claims outstanding, additional amount for unexpired risks and fund respectively arising from the insurer’s Hong Kong insurance business only) (the “relevant amount”); or
- (b) where, in respect of such liabilities, it has entered into contracts of reinsurance for which the premiums payable exceeded one half of the gross premiums received, the aggregate of (i) 40% of its liabilities before deducting the amount in respect of which contracts of reinsurance have been entered into and (ii) the relevant amount,

and where paragraph (b) applies, the insurer shall maintain assets in accordance with paragraph (a) or (b), whichever is greater.

Actuarial Review of Insurance Liabilities

Adequacy of the reserves set aside by an insurer is an important factor affecting the insurer’s ability to meet its obligations for the payment of claims and to fulfil the reasonable expectations of policy holders. To ensure reserve adequacy, the IA has issued a Guidance Note on “Actuarial Review of Insurance Liabilities in respect of Employees’ Compensation and Motor Insurance Businesses” which requires insurers and reinsurers carrying on employees’ compensation and/or motor insurance businesses in or from Hong Kong to conduct an actuarial review of reserves relating to such businesses, which are the two important classes of statutory business, in accordance with the criteria set out in this Guidance Note on an annual basis. An actuarial report is required to be prepared and certified by the actuary, and to be submitted to the IA annually for review.

Statutory Valuation Basis for Assets and Liabilities

The Valuation Regulation provides a basis for the valuation of the assets and liabilities of an insurer carrying on general business, other than a captive insurer. The Valuation Regulation prescribes the valuation methods for different types of assets commonly found in an insurer's balance sheet. To ensure a prudent spread of investments, the Valuation Regulation also stipulates admissibility limits for different categories of assets. The admissibility limits, however, do not apply to assets maintained in Hong Kong pursuant to the local asset requirement.

Corporate Governance of Authorised Insurers

The IA has issued a Guidance Note on "The Corporate Governance of Authorized Insurers", which aims to enhance the integrity and general well being of the insurance industry through providing assistance to authorised insurers for the evaluation and formulation of their internal practices and procedures. This Guidance Note sets out the minimum standard of corporate governance that is expected of authorised insurers and applies to an authorised insurer incorporated in Hong Kong and an authorised insurer incorporated outside Hong Kong where 75% or more of the annual gross premium income pertains to its Hong Kong insurance business, unless written consent for exemption has been obtained from the IA. Irrespective of the proportion of an overseas insurer's Hong Kong insurance business, the IA expects such insurer to strictly observe any applicable guidelines on corporate governance promulgated by its home regulatory authority.

Reserving for Mortgage Guarantee Business

The IA has issued a Guidance Note on "Reserving for Mortgage Guarantee Business", which sets out the minimum standard expected of an insurer in setting aside technical reserves in respect of mortgage guarantee business for the purposes of ensuring that it is able to meet its liabilities or fulfil the reasonable expectations of policy holders. This Guidance Note applies to an insurer as well as reinsurer in respect of its mortgage guarantee business carried on in or from Hong Kong.

Asset Management

In order to ensure that an insurer will meet its contractual liabilities to policy holders, its assets must be managed in a sound and prudent manner, taking into account the profile of liabilities and risks of the insurer. The IA has issued a Guidance Note on "Asset Management by Authorized Insurers", which is adopted from the paper "Supervisory Standard on Asset Management By Insurance Companies", as approved by the International Association of Insurance Supervisors in 1999. This Guidance Note provides a checklist for assessing how insurers should control the risks associated with their investment activities. This Guidance Note applies to an insurer incorporated in Hong Kong and the Hong Kong branch of an insurer incorporated outside Hong Kong whose investment in financial assets, namely, bonds and other fixed income instruments, equities and equity type investments, debts, deposits, other rights and property, exceeds HK\$100 million.

The Code of Conduct for Insurers

As part of the self-regulatory initiatives taken by the industry, the Federation has published The Code of Conduct for Insurers. This Code seeks to describe the expected standard of good insurance practice in the establishment of insurance contracts and claims settling; promote the disclosure of relevant and useful information to customers; facilitate the education of customers about their rights and obligations under insurance contracts; foster a high professional standard in the transaction of insurance business; and encourage insurers to promote and enhance the industry's public image and standing. This Code applies to all general insurance members of the Federation and applies to insurances effected in Hong Kong by individual policy holders resident in Hong Kong and insured in their private capacity only. As a condition of membership of the Federation, all general insurance members shall undertake to abide by this Code and use their best endeavours to ensure that their staff and insurance agents observe its provisions.

The Insurance Claims Complaints Bureau

The Insurance Claims Complaints Bureau (“ICCB”) was incorporated to implement self-regulation in the interpretation and handling of insurance claims complaints arising from all types of personal insurance policies taken out by residents in Hong Kong. The Insurance Claims Complaints Panel (“Complaints Panel”) was established by the ICCB with the objective of providing independent and impartial adjudication of complaints between insurers and their policy holders. The Complaints Panel is in charge of handling claims complaints either from policy holders themselves or their beneficiaries and rightful claimants. The Complaints Panel, in making its ruling, shall act in conformity with the terms of the relevant policy, general principles of good insurance practice, any applicable rule of law or judicial authority, and any codes and guidelines issued from time to time by the Federation.

Regulation of Insurance Intermediaries

General Provision

Insurance intermediaries, i.e., insurance agents and insurance brokers, are subject to a self-regulatory system supported by legislation which is contained in Part X of the ICO.

Under the ICO, a person is prohibited from holding himself out as an insurance agent or insurance broker unless he is properly appointed or authorised. A person is also prohibited from holding himself out as an appointed insurance agent and an authorised insurance broker at the same time. It is an offence under the ICO for an insurer to effect a contract of insurance through, or accept insurance business referred to it by, an insurance intermediary who has not been properly appointed or authorised.

Registration of Appointed Insurance Agents

To act as an insurance agent, a person is required to be appointed by an insurer and registered with the IARB established under the Federation. An appointed insurance agent shall not represent more than four insurers, of whom no more than two shall be long-term business insurers.

Under the ICO, an insurer is required to keep a register of appointed insurance agents and to make it available for public inspection at its registered office or at a place approved by the IA. For this purpose, the IA has approved the registered office of the Federation as the place where the register should be maintained and made available for public inspection.

An insurer is required to give the IA details of the registration and removal of its appointed insurance agents within seven days of such registration or removal. Alternatively, the insurer may provide such details to the IARB, and in so doing the insurer concerned is considered as having complied with this requirement. Upon receipt of such notification by the insurer, the IARB shall update the register and notify the IA accordingly.

Administration of Insurance Agents

An insurer is required to comply with the Code of Practice issued by the Federation and endorsed by the IA. An insurer is responsible for the actions of its appointed insurance agents in their dealings with clients in respect of the issue of insurance contracts and related insurance business.

The Code of Practice specifies the rules and procedures governing the registration and de-registration of insurance agents, the power of the IARB to handle complaints and require the insurers to take disciplinary actions against their insurance agents, the fit and proper criteria of insurance agents and the minimum requirements of the agency agreement.

- A register of appointed insurance agents and a sub-register of insurance agents’ responsible officers and technical representatives shall be kept and maintained for public inspection;

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- An insurer must ensure that its agents are registered with the IARB whereas an insurance agent must ensure that its responsible officer and technical representatives are registered with the IARB;
- An insurance agent is prohibited from representing more than four insurers, of which no more than two shall be long term insurers;
- A responsible officer or technical representative of an insurance agent is prohibited from being a responsible officer or technical representative of another insurance agent; and
- The IARB has disciplinary powers against insurance agents, their responsible officers or technical representatives registered with it. Disciplinary actions may include:
 - issuing a reprimand to an insurance agent, its responsible officer or technical representatives;
 - suspending or terminating the appointment of an insurance agent, its responsible officer or technical representatives; or
 - such other actions as the IARB thinks fit.

The IARB issues guidelines from time to time indicating how it intends to exercise its powers and fulfil its responsibilities under the Code of Practice. The guidelines issued by the IARB include the following:

- guidelines on misconduct;
- guidelines on handling of premiums; and
- guidelines on the effective date of registration of insurance agents, responsible officers and technical representatives.

The IA introduced an Insurance Intermediaries Quality Assurance Scheme in January 2000 for insurance intermediaries. Under the scheme, insurance intermediaries are required to pass the Intermediaries Qualifying Examination conducted by the Vocational Training Council as one of the requirements for entry to the profession (unless they are exempt) and to attend continuing professional development programmes as a condition for the renewal of their registration.

Authorisation of Insurance Brokers

An insurance broker shall either obtain authorisation from the IA or be a member of a body of insurance brokers approved by the IA.

An insurance broker who is a member of an approved body of insurance brokers is also subject to the membership regulation of his own professional body that is approved by the IA.

In order to be authorised as an insurance broker or be admitted as a member of an approved body of insurance brokers, a person, apart from being fit and proper to be an insurance broker, must satisfy the minimum requirements specified by the IA with regard to:

- qualifications and experience;
- capital and net assets;
- professional indemnity insurance;
- keeping separate client accounts; and
- keeping proper books and accounts.

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Register of Insurance Brokers

The IA is required to maintain a register of authorised insurance brokers as well as a register of approved bodies of insurance brokers. The registers are open for public inspection.

An approved body of insurance brokers is required to maintain a register of its members which contains information required by the IA in respect of each member for public inspection.

Audit Requirement of Insurance Brokers

An insurance broker, authorised by the IA or who is a member of an approved body of insurance brokers, is required to submit an annual audited profit and loss account, an audited income and expenditure account, an audited balance sheet together with an auditor's report as to whether the auditor is of the opinion that the insurance broker has continued to comply with the minimum requirements of the IA or the approved body, as the case may be. The approved body of insurance brokers is required to submit to the IA an annual auditor's report on its members' continued compliance with the minimum requirements.

Power of Intervention regarding Insurance Agents and Insurance Brokers

The IA is empowered to direct the de-registration of an appointed insurance agent. The IA is also empowered to withdraw the authorisation of an insurance broker or approval of a body of insurance brokers if the broker or the approved body has failed to comply with the relevant authorisation or approval requirements under the ICO as appropriate or the withdrawal is justified in the interests of policy holders or potential policy holders or the public. The IA has the power to require an insurer, insurance agent or insurance broker to produce books and papers for its examination of the affairs of insurance intermediaries. The IA also has the power to present a petition for an insurance intermediary to be wound up or declared bankrupt if he considers it to be in the public interest.

REGULATORY FRAMEWORK — PRC

Overview

The insurance industry is heavily regulated in the PRC. The CIRC is the regulatory authority responsible for supervising the PRC insurance industry. Insurance activities undertaken within the PRC are principally governed by the Insurance Law and its related rules and regulations.

Initial Regulatory Framework

The Insurance Law was originally enacted on 30 June 1995 and provided the initial framework for regulating the PRC insurance industry by establishing the following:

- *Licensing of insurance companies and intermediaries.* The Insurance Law established requirements for minimum registered capital levels, form of organisation, senior management qualifications and the adequacy of information systems for insurance companies, insurance agencies and brokers.
- *Separation of life insurance and general insurance.* The Insurance Law separated life, accident and health insurance businesses, on the one hand, and property, casualty, liability and credit insurance businesses, on the other hand, into two different classes.
- *Regulation of market conduct.* The Insurance Law prohibited fraudulent and other unlawful conduct by insurance industry participants.
- *Regulation of insurance products.* The Insurance Law authorised the PBOC, the insurance regulatory authority at the time, to approve the policy terms and premium rates for certain insurance products.

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- *Financial condition and performance of insurance companies.* The Insurance Law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers, established compulsory reinsurance requirements and established a reporting system to facilitate monitoring by the PBOC.
- *Supervisory and enforcement powers of the regulatory authority.* The PBOC was given broad powers under the Insurance Law to regulate the insurance industry.

Amendment to the Insurance Law

On 28 October 2002, the Insurance Law was amended by a series of regulations promulgated by the CIRC, which reflected a gradual regulatory shift to transparency and convergence towards international practices. Significant changes included:

- increased level of disclosure by insurance companies;
- more stringent reserve and solvency requirements;
- greater flexibility to develop insurance products;
- broader permitted investment channels, including equity investments in insurance-related enterprises, such as asset management companies;
- increased penalties for insurance market misconduct;
- gradual phasing out of compulsory reinsurance as a result of the PRC's accession into the WTO; and
- reduction of barriers to entry into the PRC insurance industry, including allowing property and casualty insurers to provide accident insurance and short-term health insurance products and allowing more foreign insurers to enter the industry.

Regulatory Authority

The CIRC

The CIRC was established on 18 November 1998 and was given the mandate to reform the PRC insurance industry, minimise solvency risk for insurers, broaden the types of investment for insurance companies and promote the development of the PRC insurance market.

The CIRC has extensive authority to supervise insurance companies operating in the PRC, including the power to do the following:

- promulgating regulations applicable to the PRC insurance industry;
- examining insurance companies;
- establishing investment regulations;
- approving the policy terms and premium rates for certain insurance products;
- setting standards for measuring the financial soundness of insurance companies;
- requiring insurance companies to submit reports concerning their business operations and condition of assets; and
- ordering the suspension of all or part of an insurance company's business.

Regulation of Insurance Companies

Authorisation

Under the Insurance Law, the Company Law, and the Provisions in Regulating Insurance Companies which became effective on 15 June 2004, and other relevant rules and regulations, insurers must obtain a permit from the CIRC in order to engage in insurance business. Generally, an insurance company may be organised as a company limited by shares or a wholly state-owned company, subject to, among other things, the following conditions:

- an insurance company must have qualified investors and a reasonable shareholding structure;
- the articles of association of an insurance company must comply with the requirements of the Insurance Law and the Company Law;
- an insurance company's paid-in registered capital must be no less than RMB200 million;
- senior management personnel of an insurance company must meet the qualification requirements set forth by the CIRC;
- an insurance company must have a sound organisation and management system; and
- an insurance company must have a business place and office facility suitable for its business development.

Scope of Business Activities

The Insurance Law limits the scope of business activities of insurance companies. Life insurance companies may not engage in general insurance business in the PRC. General insurance companies may not engage in life insurance business. However, with the approval from the CIRC, a general insurance company may engage in short-term health insurance and accident insurance businesses. The specific scope of business of an insurance company and the geographic area that an insurance company may operate in must be approved by the CIRC. Insurance companies may also engage in ceding reinsurance and assuming reinsurance.

Under the Interim Provisions for Foreign Exchange of Insurance Business jointly issued by SAFE and the CIRC on 24 September 2002, an insurance company may engage in foreign exchange business with the approval of SAFE.

Terms and Premium Rates of Insurance

In respect of the types of insurance which are compulsory to take out under PRC law, new types of life insurance products and other types of insurance identified by the CIRC to be relevant to the social public benefits, insurance companies must report their policy terms and premium rates to the CIRC for examination and approval. Such policy terms and premium rates can only be used after examination and approval by the CIRC or its agencies. When designing insurance terms and premium rates for insurance products other than the above three products, the insurance companies shall, within 10 working days of the operation of such terms and premium rates, report to the CIRC or its agencies for filing. The branches of an insurance company may, within the scope specified by the CIRC, make adjustments to premium rates submitted by its headquarters and approved by the CIRC. However, they shall obtain approval from their headquarters and report that to the local agencies for examination and approval. In cases where the adjustment to the premium rates made by the branches of an insurance company which have been submitted by their headquarters and approved by the CIRC, go beyond the scope approved by the CIRC, their headquarters shall be responsible for submitting such modifications to the CIRC for examination and approval.

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Insurance companies, when designing their policy terms and premium rates, must satisfy the following terms and conditions:

- be clear in structure, accurate in wording, precise in expression and easy to understand;
- be complete, be fair, not encroach upon the lawful benefits of the insured, nor harm the social public benefits;
- conform to the laws, administrative regulations and related provisions of the CIRC;
- be reasonable in the calculation and identification of premium rates, not harm the solvency of insurance companies or hinder fair market competition; and
- other terms and conditions required by the CIRC.

Paid-in Capital

Under the Provisions in Regulating Insurance Companies, the minimum registered capital as well as the paid-in capital for the establishment of an insurance company is RMB200 million. In addition, insurance companies are required to increase their registered capital by RMB20 million for each branch office they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their domicile. Insurance companies with a registered capital of at least RMB500 million may open branches without increasing their registered capital as long as they have adequate solvency.

Statutory Deposit

An insurance company is required to make a statutory deposit of 20% of its registered capital into a bank designated by the CIRC. This statutory deposit may not be used for any purpose other than paying off debts during liquidation proceedings.

Reserves

Pursuant to the PRC Financial Regulations for Insurance Companies, insurance companies must make allocations to the following reserves:

- *Unearned premium reserve*, which represents the payment reserve allocated for liabilities undertaken annually for non-life insurance policies with a profit/loss settlement period of no longer than one year, at 50% of the net written premiums in such period;
- *Long-term premium reserve*, which represents the reserve allocated for non-life insurance policies of greater than 12 months in duration, at an amount resulting from subtracting the accrued payment expense from the accrued premium income before the end of the fiscal year;
- *Life insurance reserve and long-term health insurance reserve*, which represent the reserves allocated for future liabilities undertaken in life insurance policies and long-term health insurance policies, respectively, at an amount determined using actuarial projections of future cash flows; and
- *Claim reserve*, which represents the reserve allocated for pending payments for both reported but not settled claims and IBNR claims. For reported but not settled claims, the allocation may not exceed the claim amount or the payout amount. For incurred but not yet reported IBNR claims, the allocation may not exceed 4% of the actual payment expense for the fiscal year.

In addition to the PRC Financial Regulations for Insurance Companies, allocation to reserves is also regulated by the Company Law, the Provision in Regulating Insurance Companies, the Administrative Measures for Non-life Insurance Reserve of Insurance Companies (trial) and its implementing rule, the Administrative Rules on Solvency Margin and Supervision Standards of Insurance Companies, the Provisional Rules on Administration of Investment in Corporate Bonds by Insurance Companies.

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Statutory and Discretionary Revenue Reserve Fund

The Company Law requires a company to set aside 10% of the net profit recorded in its statutory accounts for a statutory revenue reserve fund until the fund has reached 50% of the company's registered capital. The company may also make appropriations from its net profit to a discretionary revenue reserve fund, provided that the appropriations are approved by shareholders' resolution.

The statutory revenue reserve fund and the discretionary revenue reserve fund may be used to cover losses of the company, or may, subject to approval by shareholders' resolution, be transferred to the company's paid-in capital, provided that the remaining portion of such statutory revenue reserve fund shall not be less than 25% of the registered capital of the insurance company. If the statutory revenue reserve fund is insufficient to cover losses of the previous fiscal year, profits in the then-current fiscal year shall be used to cover such losses before allocations to the statutory revenue reserve fund are made.

Insurance Guarantee Fund

The Provisions in Regulating Insurance Companies and the Administrative Measures for Insurance Guarantee Fund, which was effective on 1 January 2005, require that a property insurance company provide for an insurance guarantee fund equal to 1% of its net written premiums from general insurance, accident insurance and short-term health insurance. No additional insurance guarantee fund will be required once the total provided amount reaches 6% of the total assets of the property insurance company.

Solvency Margin

The Insurance Law requires an insurance company to maintain a minimum solvency margin commensurate with the scale of its business operations. In addition, in March 2003 the CIRC introduced a new standard, the solvency ratio, to measure the financial soundness of insurance companies and provide better policy holder protection under a system of corrective regulatory action.

For general insurance and short-term life insurance businesses, the minimum solvency margin is the *greater of*:

- 18% of the portion of the net written premium in the current fiscal year net of business tax and other surcharges not in excess of RMB100 million plus 16% of the portion in excess of RMB100 million; or
- 26% of the portion of the average annual net claims incurred for the last three years that is less than RMB70 million plus 23% of the portion in excess of RMB70 million.

For an insurance company in the general insurance and short-term life insurance businesses with an operating history of less than three years, the first method applies.

For an insurance company with long-term life insurance business, the minimum solvency margin is the sum of:

- 4% of the life insurance reserve for life insurance business at the end of the fiscal year plus 1% of the life insurance reserve for investment-linked insurance business at the end of the fiscal year; and
- 0.1% of the sum assured at death on term life insurance policies with insurance periods of less than three years, plus 0.15% of the sum assured at death on term life insurance policies with insurance periods between three years to five years, plus 0.3% of the sum assured at death on term life insurance policies with insurance periods of more than five years and on other types of term life insurance policies. For term life insurance policies not classified as to time, a standard 0.3% of the sum assured at death shall be taken in calculations.

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If the actual solvency margin of an insurance company falls below the prescribed minimum solvency margin, the legal representative, actuarial officer, financial officer and other officers of the company are required to promptly report such finding to the CIRC. The CIRC may put the company under special supervision and take additional actions depending on the circumstances:

- *If the actual solvency margin of an insurance company is between 70% and 100% of the prescribed minimum solvency margin:* The CIRC may ask the insurance company to take prompt corrective measures to meet the minimum solvency margin requirement within a specified period of time. If the insurance company fails to meet the minimum solvency margin requirement within the specified period of time, the CIRC may order the insurance company to increase its paid-in capital, cede reinsurance, limit the scope of its business, limit dividend payouts, limit the purchase of fixed assets, limit its operation expenses and limit the establishment of additional branches until such time as the insurance company meets the minimum solvency margin requirement.
- *If the actual solvency margin of an insurance company is between 30% and 70% of the prescribed minimum solvency margin:* In addition to the measures set forth above, the CIRC may order the insurance company to sell non-performing assets, transfer its insurance business to other insurance companies, limit the level of compensation for its senior executives, limit its commercial advertisement and suspend the development of new businesses or take other appropriate measures.
- *If the actual solvency margin of an insurance company falls below 30% of the minimum solvency margin:* In addition to the measures set forth above, the CIRC may assume control of the operations of the insurance company.

Use of Insurance Funds

The Insurance Law and CIRC regulations strictly limit the use of funds by PRC insurance companies. In particular, the PRC Insurance Law and CIRC regulations prohibit PRC insurance companies from, among other things, using their funds to engage in activities that are outside of the scope of normal insurance operations.

Under the Administrative Regulations for Insurance Companies and the Interim Provisions Regarding Investment by Insurance Companies in Corporate Bonds, the use of insurance funds is limited to the following:

- bank deposits;
- investment in government bonds;
- investment in financial bonds;
- investment in corporate bonds;
- investment in equity investment funds; and
- other forms of use of capital as stipulated by the State Council.

Prior to June 2003, PRC insurance companies were only allowed to invest in bonds issued by four types of state-owned enterprises. Since June 2003, PRC insurance companies may invest up to 20% of their total assets as of the end of the previous month in corporate bonds issued by PRC companies that are rated AA or above by a CIRC approved credit rating agency, calculated on the basis of cost.

Under the Interim Provisions Regarding Investments by Insurance Companies in Equity Investment Funds, insurance companies, subject to the satisfaction of certain conditions, may apply to engage in the equity investment fund business. The equity investment fund business of an insurance company must meet the following requirements:

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- based on the purchase price, the investment of an insurance company in equity investment funds may not exceed 15% of the total assets of the insurance company as of the end of the previous month;
- based on the purchase price, the amount of investment in a single fund by an insurance company may not exceed 3% of the total assets of the insurance company as of the end of the previous month;
- the amount of investment in a single closed-end fund by an insurance company may not exceed 10% of the fund; and
- the equity investment fund business of an insurance company must be conducted solely by the headquarters of such insurance company, and branches of such insurance company may not engage in equity investment fund trading.

On 31 January 2004, the State Council released Certain Opinions on Promoting the Reform, Opening and Steady Growth of the Capital Market, in which the State Council encouraged, among other things, investment of insurance funds in the capital markets.

Under the Guidance on Risk Control for Use of Insurance Funds, a CIRC regulation that became effective on 1 June 2004, insurance companies and insurance asset management companies are required to establish a comprehensive and effective risk control system with respect to the use of insurance funds. In particular, such risk control system shall cover, among other things, asset liability management, investment policy management, information technology system management and human resource management. In addition, insurance companies are required to conduct, at least annually, a comprehensive and systematic internal review of the use of insurance funds. The result of such review shall be reported to the board of directors.

Use of Insurance-related Foreign Exchange Fund Overseas

The Interim Measures for the Control of Overseas Use of Insurance-related Foreign Exchange Fund was implemented on 9 August 2004. According to these measures, any Chinese-Funded insurance company, Foreign-Funded insurance company, Chinese-foreign joint venture insurance company or branch of any foreign insurance company, whose establishment is approved by the CIRC and is registered according to the PRC law, may engage in the overseas business of insurance-related foreign exchange fund. Under these measures, the insurance-related foreign exchange fund means the total sum of capital, public reserve fund, undistributed profits, various reserves and guarantee deposits received in foreign currencies of an insurance company. CIRC and SAFE shall conduct supervision and control over the overseas use of insurance-related foreign exchange funds. For overseas use of its insurance-related foreign exchange fund, the head office of the insurance company shall have unified strategic allocation of assets, an internal professional fund use department or a related insurance asset management company, which shall be in charge of the operation and management. No branch of an insurance company may engage in any overseas use of foreign exchange fund.

Qualification Conditions

An insurance company undertaking overseas use of its foreign exchange fund must:

- have a license for engaging in foreign exchange;
- have total assets of not less than RMB5 billion as at the end of the previous year;
- have a foreign exchange fund of not less than US\$15 million or its equivalent in other freely convertible currencies as at the end of the previous year;
- have a solvency margin which conforms to the relevant requirements of CIRC;

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- have a professional funds application department or a related insurance asset management company;
- have an internal management system and risk control system which complies with the provisions of the Risk Control Guidelines for Application of Insurance Funds;
- have the required number of professional and managerial personnel with at least two years of experience in overseas investment under the relevant provisions; and
- have fulfilled other requirements as may be required by CIRC and SAFE.

Scope and Ratio of Investment

The overseas use of insurance-related foreign exchange funds shall be limited to the following investment types and instruments:

- bank deposits;
- bonds of a foreign government, international financial organization or foreign company;
- bonds issued outside China by the Chinese government or a Chinese enterprise;
- bank bills and large negotiable certificates of deposit; and
- other investment types and instruments specified by the State Council.

Any overseas use of insurance-related foreign exchange fund shall comply with the ratios as follows:

- the total amount of investment may not exceed 80% of the foreign exchange balance as at the end of the previous year of the insurance company or, in the case of any circumstances under Article 8 of the Interim Measures for the Control of Overseas Use of Insurance-related Foreign Exchange Fund, it may not exceed 80% of the sum of its foreign exchange balance as at the end of the previous year and its increased fund;
- the actual total amount of investment of the insurance company may not exceed the amount of foreign exchange payment for investment as approved by SAFE;
- the insurance company's deposit in one bank may not exceed 30% of the amount of foreign exchange payment limit for investment as approved by SAFE, however the balance amount in the account for settlement of overseas use of foreign exchange fund shall not be subject to this limit;
- the balance amount of all bonds with A credit rating that the insurance company invested in, except those issued overseas by the Chinese government or a Chinese enterprises, calculated according to the price based on their cost, may not exceed 30% of the amount of foreign exchange payment limit for investment as approved by SAFE;
- the balance amount of all bonds below AA credit rating that the insurance company invested in, except those issued overseas by the Chinese government or Chinese enterprises, calculated according to the price based on their cost, may not exceed 70% of the amount of foreign exchange payment for investment as approved by SAFE;
- the balance amount of bonds issued by one company or enterprise, which the insurance company invested in, as calculated according to the price based on their cost, may not exceed 10% of the amount of foreign exchange payment for investment as approved by SAFE; and
- the balance amount of bonds issued overseas by the Chinese government or Chinese enterprises, which the insurance company invested in, as calculated according to the price based on their cost, may not exceed the amount of foreign exchange payment limit for investment as approved by SAFE.

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Share Investments

The Interim Measures on Administration of Share Investments of Insurance Institution Investors, effective as of 24 October 2004, allow insurance companies and insurance asset management companies that satisfy the requirements of the CIRC to engage in share investments. Such measures require that the CIRC and CSRC supervise and regulate share investment activities by insurance institutional investors in accordance with their respective duties. These measures apply to insurance group companies and insurance holding companies engaging in share investments. Share investments referred to in the foregoing shall mean trading of securities such as shares and convertible corporate bonds and other products in the securities markets by insurance institutional investors or institutions which satisfied the requirements and entrusted by these insurance institutional investors. The CIRC shall examine applications made by the insurance companies and insurance assets management company.

Qualification Conditions

Insurance asset management companies engaging in share investments must satisfy the following requirements:

- the internal management system and risk control system shall comply with the requirements set out in the Risk Control Guidelines for Application of Insurance Funds;
- have an independent trading department;
- the relevant senior management staff and key business personnel shall comply with the criteria stipulated in these measures;
- have a specialised investment analysis system and risk control system; and
- other conditions stipulated by the CIRC.

Insurance companies which satisfy the following criteria may, upon approval from the CIRC, entrust the relevant insurance assets management companies meeting the criteria set out in the foregoing paragraphs to engage in share investments:

- have a solvency margin which comply with the relevant CIRC regulations;
- have internal management system and risk control system which comply with the provisions set out in the Risk Control Guidelines for Application of Insurance Funds;
- have a designated department which act as a custodian of insurance funds;
- have relevant senior management staff and key business personnel who comply with the requirements set out in these measures;
- have a custodian mechanism for shares;
- have no major violation of laws and regulations in investment operations over the past 3 years; and
- other conditions stipulated by the CIRC.

Insurance companies which satisfy the following criteria may, upon approval from the CIRC, engage in share investments directly:

- have a solvency margin which comply with the relevant CIRC regulations;
- have an internal management system and risk control system which comply with the provisions set out in the Risk Control Guidelines for Application of Insurance Funds;
- have a professional funds application department;
- have an independent trading department;

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- have a custodian mechanism for shares;
- have relevant senior management staff and key business personnel who comply with the requirements set out in these measures;
- have a specialised investment analysis system and risk control system;
- have no major violation of laws and regulations in investment operations over the past 3 years; and
- meet other conditions stipulated by the CIRC.

Scope and Ratio of Investment

Share investments of insurance institutional investors shall be limited to the following categories:

- Renminbi-denominated ordinary shares (Renminbi-denominated ordinary shares shall mean Renminbi-denominated shares offered to the public and traded on the market in China);
- convertible corporate bonds; and
- other investment categories stipulated by the CIRC.

Share investments of insurance institutional investors may adopt the following means:

- subscription on the primary market, including market-value placement, online and offline subscription and participation in placement in the capacity of strategic investors and so on; and
- trading on the secondary market.

As for the ratio of share investments, the Notice of CIRC Concerning the Issues of Share Investments of Insurance Funds, issued by the CIRC on 17 February 2005, provides as follows:

- the balance amounts of share investments by insurance institutional investors may not, together with traditional insurance products to be calculated according to a price based on their cost, exceed 5% of the total assets of the company as at the end of the previous year after deduction of investment-linked insurance product assets and universal life insurance product assets; the ratio of shares invested with investment-linked insurance products shall be calculated according to a price based on their cost, with a maximum of 100% of the account assets for such products; the ratio of shares invested with universal insurance products shall be calculated according to a price based on their cost, with a maximum not exceeding 80% of the account assets for such products;
- where insurance institutional investors invest in floating stocks of a listed company with less than 100 million shares, the balance of its cost may not exceed 20% of the share assets of the company that may be invested (including investment-linked and universal life insurance products);
- where insurance institutional investors invest in floating stocks of one listed company, the balance of its cost may not exceed 5% of the share assets of the company that may be invested (including investment-linked and universal life insurance products);
- where insurance institutional investors invest in floating stocks of one listed company, the quantity may not exceed 10% of the floating stocks of such listed company, or 5% of the total equities of the listed company;
- shares of listing companies converted from convertible bonds held by insurance institutional investors shall be transferred to the share investment and securities account of the company for the calculation of the ratio of share investments; and
- where insurance institutional investors entrust insurance assets management companies to invest in share, asset base numbers and investment ratios for share investments shall be specified in entrustment agreements.

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Bond Investments

The Interim Measures For the Administration of Bond Investments of Insurance Institutional Investors became effective on 17 August 2005, pursuant to which, an insurance institutional investor (i.e., the insurance company or insurance asset management company in bond investment business approved by the CIRC and registered under the law) may invest in Renminbi denominated bonds and foreign currency denominated bonds issued in the PRC by different issuers. Where an insurance group company or insurance holding company conducts bond investment business, these measures shall apply. The CIRC shall be responsible for formulating various administrative policies and regulations to regulate the bond investment activities of insurance institutions, adjusting wherever appropriate, product type and percentage requirements for bond investments, and supervising and controlling the investment activities in accordance with the law.

An insurance institution may invest in bonds, including government bonds, financial bonds, corporate bonds and other bonds approved for issue by the relevant authority.

Investment in Government Bonds

Where an insurance institution invests in government bonds, it may at its own discretion determine its total percentage or percentage for a single transaction of government bond investment and maintain a certain percentage of government bonds in accordance with its asset distribution requirements and investment strategies.

Investment in Financial Bonds

Where an insurance institution invests in financial bonds, it may invest in a number of such bonds, including notes of central bank, financial bonds of policy bank, subordinated debentures of policy bank, financial bonds of commercial bank, subordinated debentures of commercial bank, subordinated fixed term debts of commercial bank, subordinated fixed term debts of insurance company and RMB bonds of international development agencies.

Investment in Corporate Bonds

Where an insurance institution invests in corporate bonds, the company in whose bonds it invests shall have the AA rating or equivalent or higher long term credit rating granted by a recognized domestic credit rating agency. Where an Insurance Institution invests in short term finance bill or convertible bonds, such investments shall be treated as investments in corporate bonds.

Indirect Investment in Infrastructure Projects

Measures for the Administration of Piloting Indirect Investment of Insurance Funds in Infrastructure Projects was promulgated by the CIRC on 14 March 2006, pursuant to which, a trustor (e.g., an insurance company, insurance group company or insurance holding company approved by the CIRC to be established in China) entrusts its insurance funds to a trustee (e.g., trust investment company, insurance asset management company, industrial investment fund management company or other professional management institution), and the trustee will thereafter establish in its own name an investment plan in line with wishes of the trustor, and invest in an infrastructure project. The CIRC shall be responsible for formulating various policies in respect of indirect investment of insurance funds in infrastructure projects. The CIRC shall, together with the relevant supervisory authority, supervise and monitor the relevant parties to and relevant business activities of an indirect investment of insurance funds in infrastructure project in accordance with the law.

The scope of such investment mainly includes transportation, communications, energy, public utilities, environmental protection and other such key State-level infrastructure projects. An investment plan may invest in infrastructure project by debt credit, equity, titles or other feasible means.

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Infrastructure projects in which investment plans invest shall satisfy the following conditions:

- conforming with State industrial policies and relevant policies;
- having a feasibility study report and assessment report issued by a professional institution with the highest qualifications certified by the relevant State authority;
- having or projected to have a stable cash flow return on investment;
- having the capacity to repay the principal and pay returns on schedule or having the capacity to provide lawful and valid security;
- having taken out relevant insurance;
- the controlling shareholder or main party in control of the project manager is a large enterprise or enterprise group with sound credit records;
- the project manager has obtained a business permit from the relevant authority; and
- other conditions specified by the CIRC.

New Policies Relating to the Use of Insurance Funds in China

According to Some Opinions of the State Council on the Reform and Development of the Insurance Industry, which was promulgated by the State Council on 15 June 2006, on the premise that the risks are controllable, the State Council will encourage insurance funds to invest in the capital markets, the investment ratio may be gradually increased, the scale and varieties of asset-backed securities in which insurance funds are invested may be expanded steadily, and insurance companies may invest insurance funds in real property and venture capital enterprises. The State Council will also encourage insurance companies to invest insurance funds in shares of commercial banks. To cope with the increased demand resulting from the developing national economy, the insurance industry shall continuously broaden the avenues and scope of using insurance funds, and give full play to the advantages of long term and stability of insurance funds, so as to provide fund support to the development of national economy.

The Opinions on Strengthening Risk Management of Insurance Capital by China Insurance Regulatory Commission (the “Opinion”) has been put into force on 31 October 2006. The Opinion put forward ideas in relation to making management systems and operational mechanisms of risk insurance capital more integrated and the prevention of risks on management of insurance capital. In particular, the purposes and focus of the Opinion are on:

- unifying thoughts and enhancing understanding to strengthen overall risk management;
- identifying targets and fulfilling tasks to establish a new managing system;
- reforming system and unifying mechanism to construct a risk management framework;
- strengthening internal control and detailing processes to regulate behaviors of risk management properly;
- improving techniques and improving systems to enhance risk management capabilities;
- identifying responsibilities and strengthening management systems to enforce a strict mechanism to identify liability.

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Investments in Insurance Industry

Equity investments in insurance companies established in the PRC are subject to the PRC Insurance Law and the Administrative Regulations for Insurance Companies and other relevant rules and regulations. Entities meeting the following conditions may, subject to CIRC approval, invest in insurance companies:

- complying with laws and administrative regulations;
- having lawful investment capital and being in good standing; and
- complying with other conditions as determined by the CIRC under the principle of prudential supervision.

If the total amount of shares of an insurance company directly held or beneficially owned by a single shareholder (including shares held by related companies of or beneficially owned by such shareholder) will exceed 10% of the total capital fund of such insurance company, approval from the CIRC must first be obtained.

Under the Administrative Regulations for Insurance Companies, equity investment in an insurance company by a single corporate legal person or other entity (including related companies) shall not exceed 20% of the total issued share capital of such company. This 20% ownership limitation does not apply to investors that are insurance holding companies and insurance companies approved by the CIRC. An insurance company is required to report to the CIRC in written form if certain shareholders of such company are related to each other.

Foreign financial institutions may invest in insurance companies, subject to CIRC approval. The aggregate equity investment in an insurance company by foreign financial institutions shall not exceed 25% of the total issued share capital of such company. If the aggregate investment exceeds 25%, such insurance company is subject to the administrative regulations applicable to foreign-funded insurance companies. This limitation does not apply to investments made by foreign shareholders making investments in listed insurance companies.

The Establishment of Insurance Brokerage Institution

The CIRC promulgated the Administrative Measures for Insurance Brokerage Institution, effective on 1 January 2005, pursuant to which the establishment of an insurance brokerage institution must meet the following conditions:

- valid shareholders, partners or promoters;
- valid articles of association or partnership agreements;
- capital contribution or registered (paid-in) capital in compliance with the relevant minimum requirement;
- having a complete and sound organization and management system;
- having a domicile place or a business place commensurate with the scale of its business operation;
- at least 2 and no less than half of the staff in possession of the Qualification Certificate of Personnel Engaging in Insurance Brokering Business;
- senior management personnel fulfilling requirements of appointment qualifications set forth by the CIRC; and
- having computer system necessary for the business operation.

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Insurance brokerage institutions may engage in:

- drafting insurance policies, choosing insurers and handling insurance matters on behalf of proposers;
- assisting insured persons or beneficiaries to file insurance claims;
- engaging in the reinsurance brokering business;
- providing consultation services on damage prevention, risk evaluation or risk management for trustees; and
- other insurance business approved by the CIRC.

Insurance Agents

Insurance agents are entities or individuals entrusted by an insurer to sell insurance products on behalf of the insurer within the scope of the insurer's authorisation and charge commissions to the insurer. Insurance agents include individual insurance agents, institutional insurance agents and ancillary agency organisations. Insurers may not employ institutional or individual insurance agents unless they are certified by the CIRC.

Pursuant to the Insurance Law, whenever an agent's services are engaged by an insurance company, the insurance company must enter into an agency agreement, which must stipulate the rights and obligations of the respective parties as well as other matters pertaining to the agency relationship. In addition, the insurer must be responsible for the actions of the insurance agent in carrying out insurance business activities pursuant to the terms of the agency agreement. The insurer bears insurance liability for actions of the agent even if the agent has acted beyond its scope of engagement, provided that the aggrieved person reasonably believed the agent was acting within its scope of engagement. However, the insurer may also bring an action against an agent that has acted beyond the scope of its engagement.

Institutional Insurance Agents

An institutional insurance agent must possess the qualifications stipulated by the CIRC, obtain a Permit for Insurance Agency Business from the CIRC, register with and obtain a business licence from the relevant local bureau of the SAIC, and either deposit a guarantee fund or obtain professional liability insurance coverage. An institutional insurance agent may sell insurance products, collect insurance premiums, perform damage investigations and process claims on behalf of the insurer.

Ancillary Agency Organisations

The CIRC promulgated the Interim Administrative Measures for Ancillary Insurance Agency Organisations on 4 August 2000, pursuant to which ancillary agency organisations refer to the entities entrusted by an insurer to sell insurance products on behalf of the insurer in the course of handling their own business. Ancillary agency organisations must have their qualifications approved by the CIRC and must obtain the Permit for the Ancillary Agency Organisations Business. Upon the establishment of an agency relationship, an insurer shall confirm that the ancillary agency organisation is in possession of a Permit for Ancillary Agency Organisations Business. An insurer may not engage an ancillary agency organisation to issue insurance policies without the approval of the CIRC.

Individual Insurance Sales Personnel

Under the Administrative Measures regarding Individual Insurance Sales Personnel, implemented by the CIRC on 1 July 2006, in order to engage in insurance agency services, an individual applicant must have a qualification certificate, an executed insurance agency agreement with an insurer and an operating certificate issued by such insurer.

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Reinsurance Requirement

Under the Insurance Law, the liability of an insurance company for the maximum amount of loss that may be caused by a single insured event may not exceed 10% of the sum of paid-in capital and the revenue reserve fund. Any amount exceeding the 10% limit must be reinsured.

Restrictions on Reinsurance Business

Under the Insurance Law and the Administrative Regulations for Insurance Companies, an insurance company seeking reinsurance must give priority to reinsurers within the territories of the PRC.

Restrictions on Foreign Equity Ownership

Since the PRC's accession to the WTO on 11 December 2001, foreign property and casualty insurers have been permitted to establish a branch or a joint venture with 51% foreign ownership. Currently foreign property and casualty insurers are permitted to establish wholly owned subsidiaries. Since the PRC's accession to the WTO, foreign life insurers have been permitted 50% foreign ownership in a joint venture with a partner of their choice. The joint venture partners may freely agree on the terms of their joint venture, provided that the terms remain within the limits of the commitments contained in the WTO schedule.

Since the PRC's accession to the WTO, insurance brokerage joint ventures with a foreign equity share of no more than 50% have been permitted to engage in brokering large scale commercial insurance, reinsurance, international marine, aviation and cargo insurance. As from December 2004, joint ventures with foreign equity share of up to 51% were permitted. By December 2006, wholly foreign-owned subsidiaries will be permitted. Additional branching of foreign insurance companies will be permitted consistent with the phase-out of geographic restrictions.

Geographic Limitation

Since December 2004, foreign insurers have been able to conduct business in the PRC without any geographic restrictions.

Scope of Business

Since 11 December 2003, foreign property and casualty insurers have been permitted to provide the full range of general insurance services to both foreign and PRC clients. Since December 2004, foreign life insurers have been permitted to provide health insurance, group insurance and pension/annuities insurance to foreigners and PRC citizens.

Since the PRC's accession to the WTO, foreign insurers have been permitted to provide reinsurance services for life and general insurance as a branch, joint venture, or wholly foreign-owned subsidiary, without geographic or quantitative restrictions on the number of licences issued.

Scope for Statutory Reinsurance

Since December 2005, there has been no compulsory reinsurance requirement for PRC reinsurers.

Foreign-Funded Insurance Companies

Under the Implementing Rules of Administrative Regulations on Foreign-Funded Insurance Companies and the Administrative Regulations of Foreign-Funded Insurance Companies, foreign insurance companies may, subject to the CIRC's approval, establish foreign-funded insurance companies within the PRC in the form of joint ventures, wholly foreign-owned enterprises or branches.

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Foreign insurance companies applying to establish a foreign-funded insurance company must meet the following requirements:

- having engaged in the insurance business for at least 30 years;
- having a representative office within the PRC for at least two years;
- having total assets of US\$5 billion or more as of the end of the year prior to the application;
- being subject to effective and comprehensive insurance regulation in their home countries or regions;
- meeting the solvency margin requirements in their home countries or regions;
- having received approvals from the regulatory authorities in their home countries or regions; and
- meeting other requirements set forth by the CIRC.

Joint venture insurance companies and wholly foreign-owned insurance companies with the minimum registered capital of RMB200 million shall increase their registered capital by at least RMB20 million for each branch they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their place of domicile. Joint venture insurance companies and wholly foreign-owned insurance companies with registered capital of at least RMB500 million are not required to increase their registered capital for establishing branches, as long as they meet the solvency margin requirement.

Prohibited Activities for Foreign-Funded Insurance Companies

Foreign-funded insurance companies are not permitted to offer compulsory insurance such as third-party liability insurance for motor vehicles, liability insurance for drivers and operators of public transportation vehicles and commercial vehicles.

Recent Developments of Insurance Related Regulations

In addition to the Administrative Regulations for Insurance Companies and the Implementing Rules of Administrative Regulations on Foreign-Funded Insurance Companies, the Trial Measures on the Management of Enterprise Pension Funds and the Interim Administrative Regulations for Insurance Asset Management Companies became effective on 1 May 2004 and 1 June 2004, respectively.

The Trial Measures on the Management of Enterprise Pension Funds set forth regulations on trust management, account management, entrustment and investment management in relation to enterprise pension funds. Subject to relevant regulatory approvals, insurance companies can become the trustees of, and insurance asset management companies may become the investment managers for, enterprise pension funds.

The Interim Administrative Regulations for Insurance Asset Management Companies set forth regulations on the establishment, modification, termination, scope of business, operation rules, risk control and supervision and administration of insurance asset management companies. Insurance companies and insurance holding companies meeting certain conditions may establish insurance asset management companies, subject to regulatory approval.

According to the Interim Administrative Regulations for Insurance Asset Management Companies, an insurance asset management company may engage in the following businesses:

- managing as a trustee Renminbi or foreign currency insurance funds owned by its shareholders;
- managing as a trustee funds owned by the insurance companies controlled by its shareholders;
- managing its own funds in Renminbi or in foreign currencies; and

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- other businesses as approved by the CIRC or other designated regulatory authorities of the State Council.

Compulsory Motor Vehicles Liability Insurance Business

The State Council promulgated the Regulations on Compulsory Insurance Against Liability Arising From Traffic Accident of Motor Vehicles on 1 March 2006. According to the regulations, which became effective on 1 July 2006, the owners and guardians of motor vehicles driving on roads shall obtain compulsory insurance against liabilities arising from traffic accident for their motor vehicles. The insurance company shall compensate third parties other than persons from the motor vehicles and the insured for any body injuries, death and property losses arising from the road traffic accidents caused by the insured motor vehicles within the limit of its liability. The Chinese-funded insurance companies may, subject to the approval of the CIRC, undertake the business of compulsory motor vehicle liability insurance. The compulsory motor vehicle liability insurance business and other insurance businesses of the insurance company shall be separately managed and audited. The compulsory motor vehicle liability insurance shall have uniform terms and conditions and a base premium rate. The CIRC will approve the premium rates based on the principle of “no profit, no loss” for the overall business of compulsory motor vehicle liability insurance. The CIRC shall conduct annual audit in respecting the compulsory motor vehicle liability insurance business of the insurance companies and publish the audit result. The CIRC may request or allow the insurance companies to adjust the premium rates according to the overall profit-making or losses of its compulsory motor vehicle liability insurance business.

Trust Business

The PBOC was responsible for the supervision of the trust business in the PRC until 28 April 2003. Since then, the China Banking Regulatory Commission (the “CBRC”) has assumed responsibility for the supervision of trust business in the PRC. Since 1999, trust and investment companies in the PRC have undergone re-registration upon examination by the PBOC. Current laws and regulations applicable to trust and investment companies in the PRC include the Trust Law and the Administrative Provisions for Trust and Investment Companies. A trust and investment company must have a registered capital of no less than RMB300 million. A trust and investment company engaging in foreign exchange business shall have no less than the equivalent of US\$15 million in foreign exchange as part of its registered capital. Upon the approval of the CBRC, a trust and investment company may engage in Renminbi and foreign exchange businesses and charitable trusts business. Without the approval of the CBRC, no entity or individual may engage in the trust business and no business entity may use the words “trust and investment” as part of its name.

Securities Business

Securities firms are under the sole regulatory supervision of the CSRC. In addition, the China Securities Association, securities exchanges and other industry self-disciplinary organisations are responsible for the discipline of their members.

Securities firms are classified into two categories: comprehensive securities firms and brokerage firms. A comprehensive securities firm must have a registered capital of at least RMB500 million and may engage in, among other things, securities brokerage services, securities investment on its own behalf and underwriting business. A brokerage firm must have a registered capital of at least RMB50 million and may engage only in securities brokerage service.

Financial Risk Control

- The net capital of a comprehensive securities firm shall be no less than RMB200 million. The total amount of operating capital appropriated for branches or securities departments must not exceed 40% of its registered capital.

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- The net capital of a brokerage firm must be no less than RMB20 million. The total amount of operating capital appropriated for branches or securities departments shall not exceed 80% of its registered capital.
- The current assets must be no less than the current liabilities (excluding trading settlement capital deposited by clients and trust investment managed capital).
- Outside liabilities of a comprehensive securities firm (excluding trading settlement capital deposited by clients and trust investment managed capital) may not be more than nine times its net assets.
- Outside liabilities of a brokerage securities firm (excluding trading settlement capital deposited by clients) may not be more than three times its net assets.

Qualifications of Directors and Senior Management Personnel of Insurance Companies

On 12 June 2006, the CIRC adopted the Administrative Rules of Qualification of Directors and Senior Management Personnel of Insurance Companies. These rules came into effect on 1 September 2006. The “Senior Management Personnel” referred to in these rules means the following persons who have the power to make decisions on or have important influence on the operation and management of an insurance company:

- (1) general managers, deputy general managers and assistants to general managers of the headquarters, branches and sub-branches of the insurance company;
- (2) with respect to headquarters, the secretary of the board of directors, person in charge of compliance, chief actuary and chief finance officer;
- (3) managers of branches and business departments; and
- (4) persons in charge who have the same power and duties as the above-mentioned senior management personnel.

The CIRC and its agencies shall make the level-by-level examination and administration of the qualifications of directors and senior management personnel. The CIRC shall review and monitor the qualifications of directors and senior management personnel of headquarters of insurance companies. The agencies of the CIRC shall review and administer the qualifications of senior management personnel of branches of insurance companies within their respective jurisdiction unless otherwise provided by the CIRC. The CIRC and its agencies shall verify the qualifications of the following persons:

- (1) directors, general managers, deputy general managers and assistants to general managers of headquarters, branches and sub-branches; and
- (2) the secretary of the board of directors, person in charge of compliance, chief actuary and chief finance officer of headquarters.

The CIRC shall not verify the qualifications but is required to report the appointment of managers of branches and business departments to its local agencies.

COMPLIANCE

Our Directors believe that the Group has complied in all material respects with all applicable regulatory requirements set out above in this section during the Track Record Period and thereafter.