

Notice of China Insurance Regulatory Commission on Implementing the Administrative Provisions on the Solvency of Insurance Companies

(No. 89 [2008])

All insurance companies and insurance asset management companies:

The CIRC issued the Administrative Provisions on the Solvency of Insurance Companies (Order No. 1 [2008] of the CIRC, hereinafter referred to as the Provisions) on July 10, 2008. To guarantee the implementation of the Provisions, we hereby notify you of the relevant issues as follows:

I. Minimum Capital Assessment Standards

a. The minimum capital of a property insurance company shall be the sum of the minimum capital for the non-life insurance business of the guarantee type and that for the non-life insurance business of the investment type.

1. The minimum capital for the non-life insurance business of the guarantee type shall be the bigger one of the following two numbers:

(1) of the net premiums of the company in the last accounting year after deducting the business tax and surtaxes, 18% of the amount below 100 million yuan and 16% of the amount above 100 million yuan; or

(2) of the average amount of comprehensive indemnity in the last three years, 26% of the amount below 70 million yuan and 23% of the amount above 70 million yuan.

The amount of comprehensive indemnity shall be the balance after deducting reinsurance recoverables and recovery income from the summation of indemnity expenses, the balance between the outstanding loss reserves drawn in the current period and those carried back from the last period as well as the reinsurance indemnity expenses.

An insurance company with an operation life of less than three full accounting years shall adopt the standards as described in method (1).

2. The minimum capital for the non-life insurance business of the investment type shall be the summation of the minimum capital for risk-based insurance premiums and the minimum capital for investment capital. In particular, the assessment standards for the minimum capital of the non-life insurance business of the guarantee type are applicable to the calculation of the minimum capital for risk-based insurance premiums, while the minimum capital for investment capital shall be the summation of the following two:

(1) 4% of the term-end liability reserves of the investment capital of non-life investment insurance products with assumed earnings; and

(2) 1% of the term-end liability reserves of the investment capital of other non-life investment insurance products than those with assumed earnings.

b. The minimum capital of a life insurance company shall be the summation of the minimum capital for its long-term personal insurance business and that for its short-term personal insurance business.

Long-term personal insurance business refers to the personal insurance business with a duration of more than one year; while short-term personal insurance business refers to the personal insurance business with a duration of one year or less.

1. The minimum capital for long-term personal insurance business shall be summation of the following two:

(1) 1% of the term-end liability reserves of investment-linked life insurance products or 4% of the term-end liability reserves of other life insurance products.

The liability reserves of investment-linked insurance products are unit reserves of the investment-linked insurance products determined according to the CIRC provisions; while the liability reserves of other life insurance products are the legal minimum liability reserves after reinsurance as determined according to the CIRC provisions, including the non-unit reserves of investment-linked life insurance products.

(2) 0.1% of the risk-based insurance premiums of term death insurance with a duration of less than three years, 0.15% of the risk-based insurance premiums of term death insurance with a duration of three to five years, or 0.3% of the risk-based insurance premiums of term death

insurance with a duration of more than five years and other insurance categories.

If fixed-term death insurances are not distinguished by duration in statistics, the calculation shall be uniformly based on 0.3% of the risk-based insurance premiums.

The risk-based insurance premiums shall be the valid insured amount less the term-end liability reserves. In particular, the valid insured amount refers to the maximum amount to be paid by an insurance company in case an insurance accident entitled to the maximum amount of compensation as stipulated in the insurance contract has occurred; while the term-end liability reserves refer to the legal minimum liability reserves as provided by the CIRC.

2. The assessment standards for the minimum capital for the non-life insurance business of the guarantee type are applicable to the calculation of the minimum capital for short-term personal insurance business.

c. The minimum capital of a reinsurance company shall be the summation of the minimum capital for its property insurance business and that for its personal insurance business as calculated according to the above-mentioned standards.

d. Except that the minimum capital assessment standards for the investment capital of the non-life insurance business of the guarantee type shall come into force on January 1, 2009, all the other above-mentioned minimum capital assessment standards shall come into force from preparing the solvency report of the third quarter of 2008.

e. Insurance companies shall, from January 1, 2009, replace the original minimum solvency amount tabular statement with the Minimum Capital Statement (see the Annex) in making solvency reports.

II. Consolidated Solvency Reports for Foreign Insurance Companies' Branches in China

1. A foreign insurance company which has more than one branch in China shall, before October 31, 2008, determine the primary reporter of solvency reports and report the primary reporter to the CIRC. The primary reporter shall not be changed at will once it is determined.

2. The primary reporter of the branches of a foreign insurance company shall regard the company' s all branches in China as a single reporter for purposes of making consolidated solvency reports.

III. Time Limit for Filing a Quarterly Solvency Report

From the solvency report of the fourth quarter of 2008, insurance companies are required to file, within 15 days upon the end of each quarter, a quarterly solvency report of this quarter. The time limit may be postponed for three days in the case of the National Day. The contents of such report and the filing ways shall remain unchanged.

IV. Standard of Total Assets for Calculating the Proportion of Capital Application

1. According to the relevant CIRC provisions, where an insurance company calculates the proportion of investment in financial debts, corporate bonds, stocks (equities), securities investment funds, indirect infrastructure projects, overseas projects or other fields as specified by the laws and regulations based on its total assets, it shall take the total assets less the capital borrowed for securities repurchase as the basis for calculating the proportion of capital application. For an insurance product governed by special provisions on the proportion of capital application, such as universal insurance or investment-linked insurance, an insurance company shall take the account assets of the product less the capital borrowed for securities repurchase as the basis for calculating the proportion of capital application.

2. Based on the above-mentioned calculation standards, if any company is making an investment above the prescribed proportion on the date when this Notice is issued, it shall immediately adjust its assets structure and reach the prescribed requirements before December 31, 2008, at the latest.

V. Specific Implementation Requirements

1. Enhancing awareness. All companies shall take the implementation of the Provisions as an importance task for carrying through the scientific view of development and implementing the Several Opinions of the State Council on the Reform and Development of the Insurance Industry

and take the implementation of the Provisions as an opportunity for improving the internal risk management level so as to enhance the rapid yet healthy development of companies.

2. Making more efforts in studying and research. Since solvency management is related to various links of a company such as financial affairs, product development, actuarial affairs, investment, information technology and internal control, all companies shall organize the relevant management personnel to earnestly study the Provisions so as to ensure that their management personnel have good mastery of the spirit and connotation of the Provisions.

3. Earnestly implementing the Provisions. All companies shall, in strict accordance with the requirements of the Provisions, improve the internal solvency management mechanism and regulate the internal risk management process so as to ensure sufficient solvency.

VI. If you have any suggestion or encounter any problem in the implementation of the Provisions, please contact the finance supervision division of the accounting department of the CIRC.

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Annex: Minimum Capital Statement

China Insurance Regulatory Commission

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