Order of China Insurance Regulatory Commission

(No. 1, 2008)

Administrative Provisions on the Solvency of Insurance Companies, which were adopted at the executive meeting of China Insurance Regulatory Commission on June 30, 2008, are hereby promulgated and shall come into force as of September 1, 2008.

Chairman Wu Dingfu

July 10, 2008

Administrative Provisions on the Solvency of Insurance Companies

Chapter I General Provisions

Article 1 For the purposes of intensifying the supervision over the solvency of insurance companies, protecting the interests of the insurants and promoting the sound, steady and sustainable development of the insurance industry, these Provisions are formulated in accordance with the Insurance Law of the People’s Republic of China.

Article 2 The term “insurance companies” as mentioned in these Provisions refers to the lawfully established insurance companies and branches of foreign insurance companies, which are engaged in the commercial insurance businesses.

The term “solvency of insurance companies” refers to the insurance companies’ capacity to repay debts.

Article 3 An insurance company shall have capital commensurate with its risks and business scale and shall ensure its solvency ratio not less than 100%.

The solvency ratio, i.e. the capital adequacy ratio, refers to the ratio between an insurance company’s actual capital and the minimum capital.

Article 4 An insurance company shall establish a solvency management system and intensify the capital restraint so as to ensure the adequate solvency.

The board of directors and the management team of an insurance company shall be responsible for the solvency management of the company. The management team of a branch of a foreign insurance company shall be responsible for the solvency management of the branch. An insurance company or a branch of a foreign insurance company shall designate one senior manager to take charge of the specific affairs relevant to the management of the solvency of the company or branch.

Article 5 China Insurance Regulatory Commission (hereinafter referred to as the CIRC) shall set forth dynamic solvency supervision criterions and a supervision mechanism based on the risks, comprehensively assess, supervise and check the solvency of insurance companies and take supervision measures in pursuance of law.

Chapter II Solvency Assessment

Article 6 An insurance company shall, in accordance with the rules of the CIRC on the preparation and submission of insurance company solvency reports of insurance companies, regularly assess its solvency, compute the minimum capital and actual capital, and conduct dynamic solvency tests.

The insurance company shall assess its solvency on the basis of risks.

Article 7 The term “minimum capital of an insurance company” refers to the amount of capital that it shall have under the provisions of the CIRC for responding to the impact of asset and insurance acceptance risks on the solvency of the company.

Article 8 The term “actual capital of an insurance company” refers to the margin between the recognized assets and the recognized liabilities.

The term “recognized assets” refers to the assets that an insurance company recognizes in accordance with the provisions of the CIRC when it assesses its solvency. The enumeration approach may apply to the recognized assets.

The term “recognized liabilities” refers to the liabilities that an insurance company recognizes in accordance with the provisions of the CIRC when it assesses its solvency.

Article 9 An insurance company shall, under the provisions of the CIRC, conduct a dynamic solvency test, and forecast and comment on its solvency trends in different situations in a specified time period of the future.

Article 10 A foreign insurance company with several branches within China shall, on a consolidated basis, assess the entire solvency of all its branches within China.

Chapter III Solvency Reports

Article 11 An insurance company shall, in accordance with rules and relevant provisions of the CIRC on the preparation and submission of insurance company solvency reports, prepare and submit solvency reports and ensure the genuineness, accuracy, completeness and compliance of the reported information.

The solvency reports of an insurance company include annual reports, quarterly reports and temporary reports.

Article 12 The board of directors and the management team of an insurance company shall be responsible for the genuineness, accuracy, completeness and compliance of the contents in the solvency reports.

Article 13 After the end of each accounting year, an insurance company shall, under the provisions of the CIRC, submit an audited annual solvency report which has been approved by the board of directors.

Article 14 The annual solvency report of an insurance company shall cover:
1. statements of the board of directors and the management team;
2. independent opinions of external institutions;
3. basic information
4. discussions and analyses of the management team;
5. descriptions about the management of internal risks;
6. minimum capital;
7. actual capital; and
8. dynamic solvency tests.

Article 15 An insurance company shall, under the provisions of the CIRC, submit a quarterly solvency report after the end of each quarter.

Article 16 Where an insurance company becomes insolvent at any time other than the regular report dates, the board of directors and the management team of the insurance company shall, within 5 working days after being aware of the insolvency, report to the CIRC and take effective actions to improve its solvency.

Article 17 At the occurrence of any of the following events, which has significant impact on the solvency of an insurance company, the insurance company shall, within 5 working days, report it to the CIRC:

1. It suffers from substantial investment losses;
2. It faces significant indemnities, large-scale cancellation of insurance policies or significant lawsuit;
3. Its subsidiary or joint venture faces financial crisis or is taken over by the financial regulatory institution;
4. The headquarters of the branch of the foreign insurance company is subject to an administrative punishment or supervisory measure, or applies for bankruptcy protection due to a solvency problem;
5. The parent company faces a financial crisis or is taken over by the financial regulatory institution;
6. Its significant assets are frozen by the judicial organ or it is subject to any serious administrative punishment imposed by any other administrative organ; or
7. Other matters having seriously adverse effects on its solvency.

Article 18 A foreign insurance company with several branches within China shall designate a branch in China to act as the primary reporter, who shall perform the reporting responsibilities as described in these Provisions.

Article 19 When an overseas insurance company established with investments of an insurance company submits to the local insurance regulatory institution a solvency report which it has prepared under the local supervision rules, it shall submit this report to the CIRC simultaneously.

Article 20 For supervision purposes, the CIRC may adjust the frequency for the submission of solvency reports by insurance companies.

Article 21 An insurance company shall, in accordance with the laws and regulations of the state, as well as the provisions of the CIRC, disclose its solvency status to the public.

Chapter IV Solvency Management

Article 22 For the comprehensive risk management of an insurance company, all factors that may affect the company's solvency shall be integrated into the company's internal solvency management system, including:
1. assets management;
2. liabilities management;
3. management of matches between assets and liabilities; and
4. capital management.

Article 23 An insurance company shall establish an effective asset management system and mechanism. It shall identify, prevent and eradicate the risks relating to concentration, credit, liquidity, market and other asset risks mainly through the following efforts:
1. Strengthening the monitoring of the capital flow in such links as acceptance of insurance, re-insurance, compensation, investment and financing;
2. Establishing an effective capital utilization management mechanism and, in light of its investment business nature and its internal organic structure, establishing an investment management system whereby the decision-making, operation, custody and evaluation functions are separated one from another but are checked one with another.
3. Intensifying the management of equities and risks of its subsidiaries, joint ventures and associated enterprises, and the management of affiliated transactions, and monitoring the transfer and shift of risks within the group;
4. Strengthening the management of fixed assets and other assets in kind, and establishing an effective asset separation and authorization system; and
5. Establishing a credit risk management system and mechanism, and intensifying the management of creditor's rights investments, receivables reinsurance reserve, and other assets on which credit risks concentrate.

Article 24 An insurance company shall, mainly through the following efforts, identify, prevent and eradicate the acceptance, guaranty, financing and other liability risks:
1. Setting forth express control procedures for the pricing, sale, insurance check, claim check, reinsurance and other key control links so as to lower the insurance acceptance risk;
2. Establishing a sound reserve liability assessment system so as to ensure the accuracy and adequacy of the

reserve liability assessment;
3. Establishing a financing management system and mechanism and clarifying the procedures for the control of risks in the financing link; and
4. Tightening the procedures for guaranties for non-insurance businesses, and in accordance with the laws, administrative regulations, and relevant provisions of the CIRC, taking prudent risk control measures and timely conducting follow-up supervision in light of the credit standing and solvency of the guaranteed parties.

Article 25 An insurance company shall intensify the asset-liability management, establish an asset-liability management system and mechanism, timely identify, prevent and eradicate nonmatches and other risks with respect to the term, interest rates and currency of the liabilities in question.

Article 26 An insurance company shall establish a sound capital management system, incessantly improve the corporate governance and timely identify, prevent and eradicate the governance risks and operation risks of the company.

Article 27 An insurance company shall establish a capital restraint mechanism. It shall take account of the impact on the solvency when it works out development strategies and business plans, designs products and utilizes capital.

Article 28 An insurance company shall establish a capital supplement mechanism commensurate with its development strategies and business plan and keep adequate solvency by raising funds and enhancing its profit-making capacity.

Article 29 An insurance company whose solvency adequacy ratio is not higher than 150% shall adopt the lower of the following two items as the base for distributing profits:
1. The distributable profits as determined according to the Accounting Standards for Enterprises; or
2. The remaining comprehensive proceeds as determined according to the rules on the preparation and submission of insurance company solvency reports.

Article 30 An insurance company shall establish a solvency management mechanism, for which the board of directors and the management team are responsible and which shall expressly state the duties and power of relevant departments and personnel in the management of assets, liabilities, asset-liability and capital, the procedures and concrete measures for the solvency management.

Article 31 An insurance company shall establish a solvency management training system. It shall regularly offer solvency management and compliance training to its solvency managers and other relevant personnel.

Article 32 The management team of an insurance company shall regularly evaluate and improve the effectiveness of solvency management and report to the board of directors or to the (general) meeting of shareholders.

Chapter V Supervision over Solvency

Article 33 The CIRC shall combine the on-site supervision and off-site supervision when it supervises and inspects the solvency of insurance companies.

Article 34 The CIRC shall review the solvency reports submitted by insurance companies.

The CIRC may delegate an intermediary agency to review the reports and relevant information submitted by insurance companies.

Article 35 The CIRC shall, after the end of each quarter, analyze the solvency of insurance companies on the basis of the solvency reports and other materials submitted by the insurance companies.

Article 36 The CIRC shall regularly or irregularly conduct on-site inspections of the following aspects relating to the solvency management of insurance companies:
1.The compliance and effectiveness of the solvency management;
2.The compliance and genuineness of the solvency assessment;
3.The implementation of the supervisory measures of the CIRC;
4. Other aspects which the CIRC deems necessary to inspect.

Article 37 The CIRC may classify insurance companies into the following three categories on the basis of their respective solvency and conduct discriminate supervision over them:
1. Companies in the inadequate solvency category, i.e., insurance companies whose solvency adequacy ratio is less than 100%;
2. Companies in the adequate solvency category I, i.e., insurance companies whose solvency adequacy ratio is between 100% and 150%; and
3. Companies in the adequate solvency category II, i.e., insurance companies whose solvency adequacy ratio is higher than 150%.

The CIRC does not adopt the dynamic solvency testing results of insurance companies as a basis for taking supervisory measures.

Article 38 The CIRC shall, in light of the different circumstances, take one or more supervisory measures against a company in the inadequate solvency category:
1. Ordering it to increase its capital or restricting the distribution of dividends to its shareholders;
2. Limiting the salaries and remunerations and position-related consumption of its directors and senior managers;
3. Limiting its commercial advertisements;
4. Restricting its establishment of more branches, limiting its business scope, ordering it to stop carrying out new business, ordering it to transfer the insurance businesses or ordering it to handle the ceded business;
5. Ordering it to auction its assets or restricting its purchase of fixed assets;
6. Restricting its use of capital;
7. Adjusting its person-in-charge and relevant managerial personnel;
8. Taking it over; and
9. Taking other supervisory measures which the CIRC deems necessary.

Article 39 The CIRC may require a company in the adequate solvency category I to submit a plan on the prevention of inadequate solvency and execute it.

Article 40 Where there is any significant solvency risk in a company in the adequate solvency category I or in the adequate solvency category II, the CIRC may require it to make a rectification, or take necessary supervisory measures against it.

Article 41 Where an insurance company fails to establish a solvency management system or fails to implement it under these Provisions, the CIRC may require it to make a rectification. If the circumstance is serious, it may take corresponding supervisory measures against it and give it an administrative punishment in accordance with the law.

Article 42 The CIRC shall assess the solvency of a foreign insurance company’s branches within China on a consolidated basis and its solvency supervisory measures apply to all branches of the said foreign insurance company.

Article 43 An institution dispatched by the CIRC may, according to the power granted by the CIRC, perform the following functions during the solvency supervision:
1. Supervising and checking the compliance and effectiveness of the internal risk management of the branches of insurance companies;
2. Supervising and checking the completeness and genuineness of the financial information of the branches of

insurance companies and other basic data subject to solvency supervision;
3. Preventing and eradicating the risks of market activities of branches of insurance companies and preventing serious risks of market activities from turning into solvency risks;
4. Implementing the supervisory measures which the CIRC take against an insurance company and ensuring the strict implementation of the supervisory measures in the branches of the insurance company;
5. Identifying, monitoring, preventing and eradicating the serious solvency risks within its jurisdiction; and
6. Other supervisory functions delegated by the CIRC.

Chapter VI Supplementary Provisions

Article 44 These Provisions shall apply to the supervision over the solvency of insurance groups. If any law, regulation or the CISR provides otherwise, those relevant Provisions shall prevail.

Article 45 The power to interpret these Provisions shall remain with the CIRC.

Article 46 These Provisions shall come into force as of September 1, 2008. The Administrative Provisions on the Solvency Amounts and Supervision Indicators of Insurance Companies (Order No. 1 [2003] of the CIRC) shall be abolished simultaneously.