PRESS RELEASE

China Release New Rules on the Utilization of Insurance Funds

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The China Insurance Regulatory Commission (CIRC) issued a set of "Interim Measures on the Utilization of Insurance Funds" (Measures) recently, concerning the regulation of investments of the insurers with the insurance funds. Following the Measures, CIRC also released a "Notice of the Modification of Insurance Fund Investment Policies" (Notice) on August 11, giving further details on insurer's investment channels and ratios.

According to the two documents, there are some significant improvements being made on the utilization of insurance funds:

- Larger scope of the investment vehicles.

Under reasonable control of the risks, the scope of the investment vehicles for the insurance companies is enlarged, and the credit level for bonds investments is increased this time. Now, there are 3 major channels permitted for the insurers to invest their insurance funds into, which can be mainly categorized as 1) bank deposits; 2)bonds, shares and securities investment funds; 3)real estate. There are also some other channels permitted by the State Council (which currently include infrastructure and central bank bills). Yet it should be noted that some prohibitions still exists for the investments such as direct investment into the development of real estate projects, depositing insurance funds into non-banking financial institutions, venture capital investment and so forth.

- Specific ratio of insurance funds.

For the first time, the ratio of insurance funds that may be invested into real estate, shares of unlisted companies and unsecured bonds and debt instruments are specified in these measures. The range of the ratio of insurance funds are clarified in the Measures and Notice, for example, the ratio of the investment on real estate and related financial products should be no more than 10% of the insurer's total assets, and the permitted investment ratio on any single listed company shares should be no more than 10% of the total share capital of the company, etc.

- Favoring environment for overseas investments

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Another highlights of the adjustment on the regulations for the utilization of insurance funds is that the Measures broaden the scope for insurer's investment on overseas market, by stating that insurance companies can purchase shares listed on the Main Board of the Hong Kong Stock Exchange, as well as bonds issued in Hong Kong by Main Board listed companies and large Chinese state-owned enterprises. Yet the ratio of the overseas investments should be no more than 15% of the amount of the particular insurer's total assets at the end of the preceding quarter.

"Insurer's investments are always strictly regulated since they have great amount of funds. However, with the growing need of capital flow and the running of the insurance company, investments of the insurers are more and more encouraged." said Edward E, Lehman, Managing Director of Lehman, Lee & Xu.

As a prominent Chinese corporate law firm and trademark and patent agency, Lehman, Lee & Xu has always maintained a focus on the insurance market of China. The firm has also been recognized as one of the top full service and intellectual property firms in China by several international magazines. It now has offices in Beijing, Shanghai, Shenzhen, Hong Kong, Macau, and Mongolia. The firm is managed by Mr. Edward Lehman, a leading expert on corporate law with over twenty years of practice experience in Mainland China.

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