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Corporate Structure of Chinese Insurance Companies: CIRC Sets Out Its Vision

In 2010, the China Insurance Regulatory Commission ("**CIRC**") for the first time issued general regulations on shareholding in insurance companies with less than 25% foreign investment ("**Domestic-Invested Insurance Companies**") and on insurance group companies. Both sets of rules do not apply to foreign-invested insurance companies ("**FIICs**"), which have 25% or more foreign investment, but impact their position in the market.

CIRC asserts a tight control over the approval of substantial shareholders in Domestic Insurance Companies. A single shareholder may not hold more than a 20% equity interest, unless CIRC grants an exemption for the purpose of strategic investment, improved governance, avoiding competition within the same business or maintaining stable development. These principles are very flexible and allow CIRC to favor certain investors or make it easier for certain Domestic Insurance Companies to attract large shareholders.

Even below the 20% threshold, CIRC sets substantive requirements for investors in a Domestic Insurance Company. A holder of a 15% interest is considered a "major shareholder", who must have been profitable for the last three years and have the ability to make follow-on investments and net assets of at least Rmb 200 million. PRC investors holding less than 15% only need to satisfy more typical "fit and proper" requirements.

Foreign shareholders are subject to separate and more onerous conditions: only financial institutions may hold shares in a Domestic Insurance Company; they must have total assets of at least US$2 billion and maintained a long term "A" credit rating during the last three years.

By creating comprehensive regulation over the holding company structure that prevails at most of the leading Chinese insurers, CIRC fills an important regulatory gap. CIRC requires insurance group companies to be financially strong and focused on the insurance industry. They must have a registered capital of at least Rmb 2 billion. Outside the insurance industry, their equity investments are limited to other financial service companies, which may not exceed 30% of the group's consolidated net assets, and passive shareholding of up to 25% in other companies, which may not exceed 10% of the group's net

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assets. CIRC in principle also prohibits cross-shareholding among group members, and group members may not carry out business in the same field of insurance if this results in conflicts of interest or competition among them. These requirements will lead to structural changes in several insurance groups and will affect foreign shareholders who invested in member companies of those groups.

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