



Business Review



INSURANCE PRODUCTS

The Company had more than 48 million individual and group life insurance policies, annuity contracts and long-term health insurance policies in force as of December 31, 2003. It also offers accident and short-term health insurance policies to individuals and groups. The guaranteed rate of return for life insurance products has been capped at 2.5% by the China Insurance Regulatory Commission of the PRC ("CIRC") since June 1999.

INDIVIDUAL LIFE INSURANCE

The Company is the leading provider of individual life insurance and annuity products in China, offering a variety of personal life insurance and annuity products. These products are primarily distributed through a some 655,000-strong team of exclusive agents operating out of a nationwide network of around 8,200 field offices. The Company also distributes its products via a range of non-dedicated agencies located in the branch offices of banks, post offices and other organizations. Gross written premiums and policy fees generated by the Company's individual life insurance products attributable to transferred and new policies totaled RMB42,288 million for the year ended December 31, 2003 and RMB37,662 million for the year ended December 31, 2002, representing a RMB4,626 million, or a 12.3% increase year-on-year. First-year gross written premiums and policy fees from individual life insurance products and annuity products attributable to transferred and new policies during 2003 was RMB13,284 million. This figure represents a 26.1% decrease over 2002 when first-year single gross written premiums and policy fees for the same period was RMB4,349 million or 32.7% of first-year individual life insurance gross written premiums. Deposits generated by the Company's life insurance and annuity products attributable to transferred and new policies totaled RMB77,318 million for the year ended December 31, 2003 and RMB52,340 million for the year ended December 31, 2002, representing an increase of RMB24,978 million year-on-year or 47.7%.



The Company provides its policyholders with an extensive range of life insurance and annuity products and services that offers them comprehensive coverage at every stage of their lives. Individual life insurance and annuity products include whole life and term life insurance, endowment insurance and annuities.

The Company markets both non-participating and participating products. As of December 31, 2003, the Company had approximately 25.8 million non-participating policies and 13.5 million participating policies in force. Those holding participating products are entitled to a share of the product's distributable earnings, as determined by the Company in line with formulas prescribed by CIRC. Under CIRC guidelines, such dividends must not be less than 70% of the distributable earnings of participating products. Since their introduction in 2000, participating life insurance and annuity products have become the Company's fastest-growing business.

Whole life and term life insurance

Non-participating whole life and term life insurance. The Company offers both non-participating whole life and term life insurance products.

Non-participating whole life insurance products provide guaranteed pre-determined benefits upon the death of the insured in return for the periodic payment of fixed premiums over a pre-set period. These premium payments are normally paid at a level rate over a pre-defined term, which may cover the duration of the contract period or a specified age or timeframe.

The guaranteed rate of return for life insurance products has been capped at 2.5% by CIRC since June 1999. The Company believes that, should China persist in operating as a low interest economy, the insurance market will continue to move away from non-participating to participating products.



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Non-participating term life insurance products provide guaranteed benefits upon the death of the person insured within a specified time period in return for the periodic payment of fixed premiums. Typical periods can range from 5 to 20 years or expire at specified ages. Death benefits can either be evenly spread over the life of the policy or increase in line with the duration of the policy. Premiums are typically paid at a level rate for the duration of the coverage period. Term life insurance products are sometimes referred to as “pure protection products”, in that they normally offer policyholders little in the way of savings or investment elements. Unlike whole life products, term life insurance policies expire with no value at the end of the coverage period if the person insured remains alive.

Participating whole life insurance. The Company also offers whole life participating insurance products. Such products are whole life insurance policies which provide an additional participation feature in the form of dividends. As a result, those holding participating products are entitled to a share of the distributable earnings from participating products as determined by the Company in line with formulas prescribed by CIRC. Under CIRC requirements, such dividends must not be less than 70% of the distributable earnings of participating products.

Endowment

Non-participating endowment products. Non-participating endowment products provide the person insured with a variety of guaranteed benefits should he or she survive specified maturity dates or periods stated in the policy. Should the person insured die during the coverage period, such products also offer guaranteed benefits to his or her designated beneficiary. Specific coverage periods can range from 5 to 20 years or end at a pre-specified age. Premiums for such policies typically remain at a fixed level for the duration of the coverage period.

Endowment products have historically been among the most popular of all individual life insurance products in the China market. However, the Company believes that should the prevailing permitted guaranteed rate of China’s life insurance market remain capped at its current 2.5% level as it has been for several years, participating endowment products will become increasingly popular.



Participating endowment products. The Company also offers participating endowment products. These are endowment policies that provide policyholders with an added participation feature in the form of dividends. Consequently, those holding such policies are entitled to a share of the distributable earnings from participating products as determined by the Company in line with formulas prescribed by CIRC. Under CIRC requirements, such dividends must not be less than 70% of the distributable earnings from participating products.

Participating endowment products are among the Company's fastest growing and most successful product lines. Hong Tai Endowment and Qian Xi Li Cai had the highest level of sales of the Company's participating endowment products. During the year ended December 31, 2003, Hong Tai Endowment had deposits worth RMB34,536 million. This figure represents 44.7% of the total deposits for the Company's individual life insurance business attributable to transferred and new policies. First-year deposits for Hong Tai Endowment for 2003 were RMB30,697 million. This figure represents a 31.7% decrease over 2002 and 39.7% of total deposits for the Company's individual life insurance business of the first year. During the same period, Qian Xi Li Cai generated RMB8,876 million in gross written premiums. This figure represents 21.0% of total gross written premiums and policy fees for the Company's individual life insurance business. First-year gross written premiums for Qian Xi Li Cai for 2003 were RMB4,304 million. This figure represents a 56.6% decrease over 2002 and 32.4% of all first-year gross written premiums and policy fees for the Company's individual life insurance business.

Annuities

Annuities are used for both asset accumulation and asset distribution purposes. Annuitants make deposits or pay premiums into their accounts and, in return, receive guaranteed level payments during the payoff period specified in their contracts. The Company offers both participating and non-participating annuities. In the case of non-participating annuity products, all risks associated with the investments are borne entirely by the Company. A significant number of non-participating annuity products impose charges or other fees on policyholders upon their early surrender of, or withdrawal from, the contract.



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Participating annuity products are annuities that provide policyholders with both a fixed annuity policy and a participation feature in the form of dividends. The Company determines dividends for these policies in the same way as it does for its life insurance policies. In common with non-participating annuities, a significant number of participating annuity products impose charges or other penalties on policyholders upon an early surrender or withdrawal.

GROUP LIFE INSURANCE

The Company is a leading provider of group life insurance in China and supplies life insurance and annuity products to the employees of some of China's largest organizations, including many Fortune Global 500 companies. The Company markets its group life insurance and annuity products through a 10,000-strong team of direct sales representatives operating out of some 4,000 branch offices nationwide. It also distributes such products through external insurance agencies and insurance brokerage companies. Gross written premiums and policy fees the Company generated from its group life insurance products attributable to transferred and new policies totaled RMB432 million for the year ended December 31, 2003 and RMB477 million for the year ended December 31, 2002. These figures represent 1.0% of the gross value of the Company's total written premiums and policy fees attributable to transferred and new policies for each respective year. The RMB432 million figure for 2003 represents a 9.4% decrease when measured against 2002. The gross written premiums of group life insurance and annuity products for the first year was RMB221 million, a reduction of 29.4% over 2002. Gross first-year single written premiums for 2003 was RMB204 million or 92.3% of all first-year group life insurance gross written premiums attributable to transferred and new policies. Deposits generated by the Company's group life insurance and annuity products attributable to transferred and new policies totaled RMB10,117 million for the year ending December 31, 2003 and RMB 6,232 million for the year ending December 31, 2002. As compared to 2002, this represents an increase of RMB3,885 million or 62.3%.

The Company offers its group customers bundled annuity products and whole life and term life insurance products they can use to serve as part of their overall employee benefit plans. Individual group products are also marketed on an independent basis. The Company believes it is the market leader in the development of group annuity products.

Group annuities. In the case of non-participating group annuities, the interest on an annuitant's deposits are credited to each participating employee's personal account, with annuity payments being made from the account to the employee. Such annuity payments can be either pre-determined in the policy contracts or based on the interest rate for a fixed two-year deposit term as adopted by the People's Bank of China ("PBOC").

The Company also offers participating group annuities. In the case of participating group annuities, interest on an annuitant's deposits is either credited to the participating employee's personal account, or credited to both the participating employee's personal account and the employer's group account, depending on the source of the deposits. Both payment methods are calculated at a guaranteed interest rate which is set at the time the product is priced and is subject to capping by CIRC. The CIRC cap currently stands at 2.5%. Formulas prescribed by CIRC entitle annuitants to a share of the distributable earnings as determined by the Company derived from participating products in excess of the rate guaranteed to participating employees.



Group participating annuity products, including Yong Tai Annuity and Group annuity (Retirement Supplement), are among the Company's fastest growing product lines. As of or for the year ended December 31, 2003, the total combined deposits for the Yong Tai Annuity and Group Annuity (Retirement Supplement) were RMB9,128 million. This figure represents a 54.5% increase over 2002.

Group whole life and term life insurance

The Company also offers non-participating whole insurance products and term life insurance products. All of the Company's group whole life and term life insurance products insure against death, while some also provide added cover against injuries due to accidents, dismemberment or disabilities due to illnesses.

ACCIDENT INSURANCE

The Company is China's leading accident insurance provider. The total value of gross written premiums for the Company's accident business attributable to transferred and new policies totaled RMB4,880 million for the year ended December 31, 2003 and RMB5,174 million for the year ended December 31, 2002. These figures represent 9.2% and 11.0% of the Company's gross written premiums and policy fees attributable to transferred and new policies for each respective year.

Accident Insurance Products

The Company offers a variety of accident insurance products and services targeted towards both individuals and groups.

Individual accident insurance. Individual accident insurance products provide benefits in the event of the death or disability of the person insured as a result of an accident, or reimburse him or her for medical expenses arising from an accident. Generally, a death benefit is paid if the person insured dies within 180 days of suffering an accident. A disability benefit will be paid if he or she is disabled, with the size of the resultant benefit depending on the extent of the disability suffered. If the person insured receives medical treatment at a China Life -approved medical institution, his or her individual China Life accident insurance products may provide added coverage for medical expenses. The Company also offers a wide range of individual accident insurance products. They include accidental death and disability insurance for students and infants and comprehensive coverage against accident and injury. The Company has additionally tailored products for individuals requiring special protection. The range of options on offer includes accidental death and disability insurance for commercial air travel passengers and automobile drivers and their passengers. Periods covered by the Company's individual accident insurance products extend from a few hours to one full year.

Group accident insurance. The Company markets a variety of group accident insurance products and services for businesses, government agencies and other organizations of many different sizes. The Company has also tailored products for specific industry groups. They include accident insurance for construction companies.



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HEALTH INSURANCE

The Company is one of China's leading health insurance providers, offering a wide range of health insurance products and services for both individuals and groups. Options on offer include disease-specific insurance, medical expense insurance and defined benefit insurance. The Company markets such products to individuals and groups via the same distribution channels that it uses to sell its life insurance products. Gross written premiums for the Company's health insurance business attributable to transferred and new policies totaled RMB5,325 million for the year ended December 31, 2003 and RMB3,764 million for the year ended December 31, 2002. These figures represent 10.1% and 8.0% of the Company's gross written premiums and policy fees attributable to transferred and new policies for each respective year. The 2003 figure represents a 41.5% increase over 2002.

The Company has tailored health insurance products for both individuals and groups. Such products are classified as being short-term policies of less than one year in duration or long-term products with timeframes of longer than one year. The Company also offers short-term and long-term defined health benefit plans, medical expense reimbursement plans and disease-specific plans for both individuals and groups.

Defined health benefit plans. These plans provide policyholders with fixed payments based on the number of days they are hospitalized or the specific type of medical or surgical operation they must undergo. Policyholders can choose to pay their premiums via a single payment or on a periodic basis.

Medical expense reimbursement plans. These plans reimburse policyholders for a portion of their outpatient or hospitalization treatment fees and expenses. Individual policyholders may either pay their premiums in a single payment or on a periodic basis. In the case of certain group plans, premiums may be paid irregularly as determined by the policyholder.

Disease-specific plans. These plans provide policyholders with a fixed payment benefit for various diseases. Premium payments for such plans may be paid on either a single payment or periodic basis.

DISTRIBUTION CHANNELS

The Company believes it now offers a larger distribution force and a more extensive geographic reach than any of its competitors. The Company's distribution network now extends into almost every county in China except Tibet. Nationwide, the Company now has some 655,000 exclusive agents operating out of approximately 8,200 field offices for its individual products. It also has a further 10,000 direct sales representatives in more than 4,000 branch offices to market its group products. The Company also distributes its individual and group products through a multi-channel network of non-dedicated agencies. They include some 78,000 outlets of banks, post offices and savings cooperatives. Commission rates vary by product and are based on factors such as premium payment terms and periods and CIRC regulations. The Company offers its many agents and representatives a comprehensive range of support facilities that includes training programs, sales instruments and information technology systems.



DIRECT SALES FORCE

The Company's direct sales force remains its primary distribution system for group life insurance and annuities, group accident insurance and group health insurance products.

Of the Company's direct sales force, some 10,000 representatives are full-time employees. Operating out of more than 4,000 branch offices across China the direct sales force can reach into almost every county in Mainland China. As a result, the Company believes its direct sales network enjoys a geographic reach unparalleled by any other life insurance company in this market.

Individual agent force

The Company's network of approximately 655,000 individual agents remains its primary distribution channel for both individual life, individual accident, and individual health insurance products.

The Company's team of individual agents continues to be a very valuable asset which enables the Company to more effectively control distribution and build and maintain long-term relationships with individual customers. Between December 31, 2001 and December 31, 2003, the number of individual agents employed by the Company increased from approximately 450,000 to approximately 655,000. The Company believes that its existing and potential customers prefer the personal approach provided by individual agents. As a result, the Company believes its individual agent force will continue to serve as its core distribution channel.

The supervision and training of the Company's individual agents is overseen by a nationwide network comprising more than 7,000 supervisors and 1,200 full-time trainers. The Company sets product management and customer service standards which all field offices and agents must meet, and conducts field tests with a view to ensuring quality. The Company rewards its individual agents through a performance-related remuneration package. It includes a commission rate that will typically decrease over each policy's premium payment period. In the case of short-term insurance products, the Company's exclusive agents are generally compensated on a fixed fee basis. Further motivations for agents include performance-based bonuses and the organization of sales-related competitions involving individual field offices and sales units.

Intermediaries

The Company also provides a variety of individual and group products through intermediaries. This distribution channel is largely made up of non-dedicated agencies located in approximately 78,000 outlets across China. They include commercial bank branches, post offices and savings cooperatives.



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Bancassurance. The Company maintains bancassurance arrangements with major banks and post offices in China and currently generates a sizeable portion of all total sales through these channels. Bancassurance is an increasingly important tool, and the Company's stand-alone bancassurance department will continue to dedicate substantial resources, with a focus on key Chinese cities. The Company will explore additional strategic alliances with one or more banks. In the short term, the Company plans to further enhance the attractiveness of its products and services by tailoring them for individual banks and providing training and integrated systems support for its banking partners.

Other non-dedicated agencies. In addition to its bancassurance arrangements, the Company now also markets individual life insurance products through other non-dedicated agencies. Such agencies currently include outlets of savings cooperatives, travel agencies, hotels and airline sales counters. The Company expects that its non-dedicated agencies network will become an increasingly important distribution channel for its individual products in future.

Other intermediaries. The Company's group products are also marketed through dedicated insurance agencies and insurance brokerage companies. These intermediaries work closely with companies wishing to select group life insurance providers and group products and services in return for commission.

CUSTOMER SERVICE

The Company remains committed to providing its current and future customers with quality insurance and consultation services and to being responsive to their needs both before and after a sale. A specialized customer service network is responsible for establishing uniform standards and procedures for all customer policy-related services. The network's many responsibilities include the handling of inquiries and complaints from customers and the training of customer services personnel.

Customer services are primarily provided by customer service teams operating out of the Company's branch and field offices throughout China. The Company provides support to customers in more remote areas by mail and other channels. The teams also utilize alternative customer services channels, such as wireless telephone networks and the Internet, to complement the efforts of individual service units and the call center network.

UNDERWRITING AND CLAIMS MANAGEMENT

The Company's individual and group insurance underwriting involves the evaluation of applications for life, accident and health insurance products by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that it is willing to accept. The Company has established qualification requirements and review procedures for its underwriting professionals. It employs detailed underwriting policies, guidelines and procedures designed to assist our underwriters to assess and quantify risks before issuing a policy to qualified applicants.



The Company's underwriters generally evaluate the risk characteristics of each prospective insured. Requests for coverage are reviewed on their merits, and generally a policy is not issued unless the particular risk or group has been examined and approved for underwritings.

All claims the Company receives from its policyholders are handled by staff located at the Company headquarters and branch office network. Typically, claims are received by employees or agents who make a preliminary examination and forward the claims to a settlement department for further verification. Once a claim has been verified, the amount payable is calculated and, once approved, is distributed to the policyholder in question.

The Company manages claims risk through a variety of organizational and computer systems controls. Organizational controls utilized include specified authorization limits for various operating levels, periodic and *ad hoc* inspections on a Company-wide basis and expense mechanisms linking payout ratios with expenses for short-term life insurance policies. The Company requires that claims examinations must be performed by two staff members. Similarly stringent requirements are used in assessing the qualifications and suitability of all applicants for claims management posts. These control procedures are supported by a computer processing system which is used to verify and process all claims.

INVESTMENTS

As of December 31, 2003, the Company held RMB279,248 million of investment assets. In compliance with the Insurance Law of China, the Company invests the insurance premiums, deposits and other funds it receives primarily in bank term deposits and fixed maturity securities such as government securities, bonds issued by the central bank and state-owned policy banks of the Chinese government and corporate bonds. The Company also invests in policy loans and securities investment funds largely made up of equity securities issued by Chinese companies and traded on China's securities exchanges. Additional Company activities in this area include participation in bond repurchase activities through inter-bank repurchase markets and repurchase exchange markets. The Company may not engage in other securities investment without the prior approval of CIRC.

The Company directs and monitors all investment activities in line with a series of investment guidelines. These guidelines include: (1) performance goals for investment funds; (2) specified asset allocations and investment types based on regulatory provisions and the Company's level of indebtedness and market forecasts; (3) specified goals based on the duration and asset-liability matching strategies; (4) specified authorization levels required for the approval of significant investment projects; and (5) specified risk management policies and prohibitions. All Company investment guidelines are reviewed and approved by its investment committee on an annual basis.



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China Life Insurance Asset Management Company Limited (“AMC”) was established on November 23, 2003 by the Company. The Company owns 60% of AMC. Prior to that, a specialized investment management department was responsible for investment management, which will subsequently be operated by the AMC under the Company’s authorization and our investment guidelines.

Risk management

In formulating its primary investment strategies, the Company’s objective is to pursue optimal investment yields while considering macroeconomic factors, risk control and regulatory requirements. The Company is exposed to four primary sources of investment risk:

- Interest rate risk;
- Credit risk;
- Market valuation risk; and
- Liquidity risk.

The Company’s investment assets are principally comprised of term deposits and fixed income securities. Consequently, interest rate fluctuations have had a significant impact on the Company’s rate of return on its investments. The Company has tried to control its interest rate risk through adjustment of its portfolio mix and terms, and, wherever possible, by managing the average duration and maturity of its assets and liabilities. However, due to a general lack of long-term fixed income securities in Chinese financial markets and restrictions on the types of investments which the Company may make, some of the Company’s assets are of lower duration than its liabilities. Ultimately, the Company believes that the development of China’s financial markets and the gradual easing of investment restrictions will enable it to better match its assets to its liabilities. Chinese financial markets currently do not provide an effective means for us to hedge our interest rate risk.



Investment portfolio

Term deposits

Term deposits primarily with commercial banking institutions in China represented 49.1% of the Company's total investment assets as of December 31, 2003.

Fixed maturity securities

Fixed maturity securities, such as Chinese treasury bonds, Chinese financial institution bonds and Chinese corporate bonds, represented 25.3% of the Company's total investment assets as of December 31, 2003.

Securities investment funds

Securities investment funds consist of Chinese domestic investment funds that primarily invest in securities that are issued by Chinese companies and traded on China's securities exchanges. Such investments represented 3.8% of the Company's total investment assets as of December 31, 2003.

Repurchase agreements


The Company entered into agreements to repurchase bonds in repurchase exchange markets. The value of bonds repurchased under these agreements represented 5.0% of the Company's total cash and investment assets as of December 31, 2003.


Policy loans


The Company provides its policyholders interest-bearing policy pledge loans that enable them to borrow not more than 70% of the cash surrender values of their policies. In general, these loans are secured by the policyholders' rights under the terms of the policies.



Distribution Network

 China Life Headquarters

 Branches at provincial & municipal level, and autonomous regions, under the direct management of China Life Headquarters

 Branches and sub-branches at prefecture, city and county level

4,000 branches

8,200 field offices

10,000 direct sales representatives

78,000 outlets

655,000 exclusive agents









Most recognized life insurance brand

2003.12.18 | 纽约证券交易所代码: LFC | 香港主股票代理: 2028

中国人寿保险股份有限公司 纽约香港成功上市

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China Life Insurance Company Limited