

THE PRC INSURANCE INDUSTRY

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OVERVIEW

The PRC insurance market is the second largest in Asia after Japan in terms of total premiums and the sixth largest worldwide, based on Sigma Report No. 3, a non-commissioned report published by Swiss Reinsurance Company, an independent third party, in 2009. According to data published by the CIRC, total gross written premiums in the PRC in 2008 reached RMB978.4 billion, of which RMB733.8 billion was from life insurance business and RMB244.6 billion was from property and casualty insurance business. The PRC insurance market is also one of the fastest growing insurance markets in the world. Between 2000 and 2008, premiums received by life insurance companies and property and casualty insurance companies in the PRC increased at a compound annual growth rate of 28.3% and 19.1%, respectively, based on data published by the National Bureau of Statistics of China and the CIRC. Key factors in the dramatic expansion of the PRC insurance market include economic reform initiatives undertaken by the PRC government over the past three decades, leading to significant increases in disposable income per capita, which have given rise to increases in automobile ownership and household properties, and leading to significant increases in corporate assets, as well as significant changes in a number of demographic trends, in the PRC.

HISTORY AND DEVELOPMENT OF THE PRC INSURANCE MARKET

The PRC commercial insurance industry resumed its presence in 1979, and the People's Insurance Company of China re-started its operations as an independent insurance company under the supervision of the PBOC in 1983. Subsequently, other PRC commercial insurance companies, including us, were established. In response to developments in the insurance industry, the PRC Insurance Law was promulgated in 1995, which sets forth the legal framework for regulating the PRC insurance industry. In 1998, the CIRC was established and assumed the regulatory functions for supervising the insurance industry previously vested in the PBOC. In 2002 and 2009, the PRC Insurance Law was amended in response to further developments in the PRC insurance industry.

Since American International Assurance Company gained approval to establish its first PRC branch in Shanghai in 1992, foreign insurers have also taken an active role in the development of the PRC insurance industry. As of 31 December 2008, there were 26 life insurance joint ventures and 16 foreign insurers in the property and casualty insurance sector.

CURRENT CONDITION OF PRC INSURANCE INDUSTRY

Industry Development and International Comparison

The PRC life insurance market has been expanding rapidly in recent years. Gross written premiums from life insurance business (excluding accident and health insurance) grew at a compound annual growth rate of approximately 29.6% between 2000 and 2008, compared to 4.1% in Asia, 9.7% in Europe and 3.8% in North America (in each case as classified in Sigma Report No. 6 (2001) and No. 3 (2009) published by Swiss Reinsurance Company) over the same period. As of

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31 December 2008, the PRC was the second largest life insurance market in Asia after Japan and the sixth largest in the world.

The PRC non-life insurance (including accident and health insurance) market is also one of the fastest growing insurance markets in the world. Gross written premiums from non-life insurance business grew at a compound annual growth rate of 25.7% between 2000 and 2008, compared to 6.4% in Asia, 12.2% in Europe and 6.2% in North America (in each case as classified in Sigma Report No. 6 (2001) and No. 3 (2009) published by Swiss Reinsurance Company) over the same period. As of 31 December 2008, the PRC was the second largest non-life insurance market in Asia after Japan and the tenth largest in the world.

The following table sets forth the insurance premiums received by life insurance and property and casualty insurance companies in the PRC and related growth rates from 2000 to 2008:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(in billions of RMB, except growth rates)								
Life insurance	100.3	142.5	227.5	298.3	319.8	364.5	405.9	494.7	733.8
Growth rate	13.3%	42.7%	59.7%	31.1%	7.2%	14.0%	11.4%	21.9%	48.3%
Property and casualty insurance	60.6	69.1	77.3	86.6	112.5	128.4	158.1	208.7	244.6
Growth rate	8.4%	14.0%	11.9%	12.0%	29.9%	14.1%	23.1%	32.0%	17.2%

Source: the CIRC.

While the PRC insurance market has experienced rapid growth, it remains relatively under-penetrated, in terms of insurance penetration rate, when compared to the developed markets. In 2008, total life insurance premiums and total non-life insurance premiums as a percentage of GDP were approximately 2.2% and 1.0%, respectively, in the PRC, compared to 7.6% and 2.2%, respectively, in Japan and 4.1% and 4.6%, respectively, in the United States (in each case as classified in Sigma Report No. 3 (2009) published by Swiss Reinsurance Company). The PRC insurance market also has a relatively low insurance density rate for both of its life insurance and non-life insurance businesses, compared to the developed markets. As of 31 December 2008, the PRC life insurance density and non-life insurance density rates were US\$72 and US\$34, respectively, compared to US\$2,870 and US\$829 in Japan and US\$1,901 and US\$2,177 in the United States (in each case as classified in Sigma Report No. 3 (2009) published by Swiss Reinsurance Company). These comparatively low insurance penetration and density rates, coupled with favorable economic development, regulatory environment and demographic trends, suggest potential for further growth in the PRC insurance market.

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The following table presents certain economic and insurance premium data for the PRC, the United States and certain selected countries and regions in Asia and Europe in 2008:

Market	Economic indicator			Life insurance			Non-life insurance ⁽¹⁾		
	GDP	GDP per capita	GDP real growth	Premiums	Insurance penetration ⁽²⁾	Insurance density ⁽²⁾	Premiums	Insurance penetration ⁽²⁾	Insurance density ⁽²⁾
	(in billions of US\$, except per capita and percentages)			(premiums in billions of US\$ and insurance density in US\$)			(premiums in billions of US\$ and insurance density in US\$)		
China	4,324	3,237	9.1%	95.8	2.2%	71.7	45.0	1.0%	33.7
United States	14,265	46,893	1.1%	578.2	4.1%	1,900.6	662.4	4.6%	2,177.4
Japan ⁽³⁾	4,845	37,881	(0.7)%	367.1	7.6%	2,869.5	106.1	2.2%	829.2
Germany	3,659	44,513	1.3%	111.3	3.0%	1,346.5	131.8	3.5%	1,572.7
France	2,865	44,836	0.7%	181.1	6.2%	2,791.9	91.9	3.0%	1,339.2
United Kingdom	2,667	43,436	0.7%	342.8	12.8%	5,582.1	107.4	2.9%	1,275.7
India ⁽³⁾	1,218	1,028	7.4%	48.9	4.0%	41.2	7.3	0.6%	6.2
South Korea ⁽³⁾	826	16,755	2.7%	66.4	8.0%	1,347.7	30.6	3.7%	621.0
Switzerland	491	64,605	1.6%	27.1	5.5%	3,551.5	21.6	4.4%	2,827.9
Taiwan	396	17,143	0.3%	52.7	13.3%	2,288.1	11.5	2.9%	499.6
Hong Kong	216	29,589	2.7%	21.3	9.9%	2,929.6	2.8	1.3%	380.8
Singapore	182	40,444	1.2%	11.4	6.3%	2,549.0	5.1	1.6%	630.0

(1) Including property and casualty insurance, accident insurance and health insurance.

(2) Insurance penetration rate is defined as gross premiums as a percentage of GDP, and insurance density rate is defined as gross premiums per capita (in each case, with gross premiums excluding cross-border business for the calculation).

(3) Financial year 1 April 2008 to 31 March 2009.

Source: Sigma Report No. 3 (2009), Swiss Reinsurance Company.

Geographical Distribution

The PRC insurance market exhibits significant geographical variations in its development. According to data published by the CIRC, in 2008, gross written premiums generated in each of Guangdong, Jiangsu, Shandong, Beijing, Shanghai, Henan, Sichuan, Hebei and Zhejiang for life insurance (including accident and health insurance) business exceeded RMB35 billion, accounting in the aggregate for approximately 59.5% of the total gross written premiums in the PRC for life insurance (including accident and health insurance) business in that period. In the same period, gross written premiums generated in each of Guangdong, Zhejiang, Jiangsu, Shandong, Beijing, Shanghai, Sichuan and Hebei for property and casualty insurance (excluding accident and health insurance) business exceeded RMB10 billion, accounting in the aggregate for approximately 56.5% of the total gross written premiums for property and casualty insurance (excluding accident and health insurance) business in the PRC in the same period.

General Condition of Insurance Fund Deployment

As of 31 December 2008, the aggregate balance of insurance fund investments in the PRC were RMB3,055.3 billion, approximately 57.9% of which were invested in bonds. At the same time, insurance companies became the second largest group of institutional investors in bond markets and important institutional investors in equity investment funds and equity securities. As of 31 December 2008, insurance funds invested directly and indirectly in the PRC equity securities and investment fund markets by insurance companies in the PRC reached RMB407.2 billion, according to data published by the CIRC.

In addition, the CIRC has been steadily promoting the reform of insurance asset management system, which has led to the establishment of a number of insurance asset management companies. As of 31 December 2008, there were nine domestically invested insurance asset management companies and one foreign-invested insurance asset management center.

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Principal Participants in the PRC Insurance Market

Based on PRC GAAP financial data published by the CIRC, China Life, Ping An and we together held approximately 64.6% of the market share, in terms of gross written premiums, in life insurance in the first nine months of 2009, while PICC, Ping An and we together held approximately 65.0% of the market share, in terms of gross written premiums, in property and casualty insurance in the first nine months of 2009.

The following table sets forth the market shares in terms of gross written premiums (excluding premiums assumed from other insurers), based on PRC GAAP financial data published by the CIRC, held by the top insurers in life and property and casualty segments of the PRC insurance industry in 2008:

Life insurance			Property and casualty insurance		
Rank	Company	Market Share	Rank	Company	Market Share
1	China Life Insurance (Group) Company ⁽¹⁾	42.7%	1	PICC Property and Casualty Co., Ltd.	41.6%
2	Ping An Life Insurance Company of China Limited ⁽²⁾	14.0	2	China Pacific Property Insurance Co., Ltd.	11.4
3	China Pacific Life Insurance Co., Ltd.	9.0	3	Ping An Property & Casualty Insurance Company of China Limited	10.9
4	Taikang Life Insurance Co., Ltd.	7.9	4	China United Property Insurance Company	7.8
5	New China Life Insurance Co., Ltd.	7.6	5	China Continent Property & Casualty Insurance	3.9
6	PICC Life Insurance Company Limited	3.9	6	Tianan Insurance Company Limited of China	2.7
7	Tai Ping Life Insurance Company, Ltd.	2.6	7	Yong An Property Insurance Company, Ltd.	2.3
8	PICC Health Insurance Company Limited	1.9	8	China Life Property & Casualty Insurance Company Limited	2.2
9	Sino Life Insurance Co., Ltd.	1.1	9	Sunshine Property and Casualty Insurance Co., Ltd.	2.2
10	American International Assurance Co., Ltd.	1.0	10	AB Property & Casualty Insurance	2.0
11	Others	8.4	11	Others	13.1
Total		100.0%	Total		100.0%

(1) Including premiums from China Life Insurance Company Limited.

(2) Including premiums from Ping An Annuity Company Limited and Ping An Health Insurance Company Limited.

Source: the CIRC.

The following table sets forth the market shares in terms of gross written premiums (excluding premiums assumed from other insurers), based on PRC GAAP financial data published by the CIRC, held by the top insurers in life and property and casualty segments of the PRC insurance industry in the first nine months of 2009:

Life insurance			Property and casualty insurance		
Rank	Company	Market Share	Rank	Company	Market Share
1	China Life Insurance (Group) Company ⁽¹⁾	39.7%	1	PICC Property and Casualty Co., Ltd.	41.1%
2	Ping An Life Insurance Company of China Limited ⁽²⁾	16.8	2	Ping An Property & Casualty Insurance Company of China Limited	12.3
3	China Pacific Life Insurance Co., Ltd.	8.1	3	China Pacific Property Insurance Co., Ltd.	11.6
4	New China Life Insurance Co., Ltd.	7.9	4	China United Property Insurance Company	7.0
5	Taikang Life Insurance Co., Ltd.	7.6	5	China Continent Property & Casualty Insurance	3.6
6	PICC Life Insurance Company Limited	6.6	6	China Life Property & Casualty Insurance Company Limited	2.6
7	Tai Ping Life Insurance Company, Ltd.	2.6	7	Tianan Insurance Company Limited of China	2.3
8	American International Assurance Co., Ltd.	0.9	8	Sunshine Property and Casualty Insurance Co., Ltd.	2.1
9	Sino Life Insurance Co., Ltd.	0.8	9	Yong An Property Insurance Company, Ltd.	1.8
10	Union Life Insurance Co., Ltd.	0.7	10	China Export and Credit Insurance Corporation	1.5
11	Others	8.3	11	Others	14.1
Total		100.0%	Total		100.0%

(1) Including premiums from China Life Insurance Company Limited.

(2) Including premiums from Ping An Annuity Company Limited and Ping An Health Insurance Company Limited.

Source: the CIRC.

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FACTORS AFFECTING INSURANCE INDUSTRY DEVELOPMENT

Rapid Economic Growth

In 1978, the PRC government initiated a policy of economic reform and started to open the country gradually to the outside world. Principal reforms that the PRC government has undertaken or initiated since 1978 include, among others, rural reforms, State-owned enterprise reforms, social security system reforms, price reforms, fiscal and tax reforms, monetary and financial sector reforms, foreign trade and investment related reforms and housing reforms. Overall, the reform programs aim at transforming the centrally planned economy of the PRC into a more market-oriented economy with a more effective system of macroeconomic management, a modern enterprise system, a modern financial system and an equitable system of income distribution and social security. In addition, the PRC's accession to the WTO in December 2001 has contributed to the growth in foreign trade and foreign direct investment, while further intensifying the domestic corporate restructuring process.

Rapid economic growth has resulted in substantial wealth creation and accumulation in the PRC. Since the beginning of its economic reform, the PRC had experienced rapid increases in GDP and GDP per capita, although it has witnessed a slowdown in its economic growth since the global financial crisis that unfolded in 2008. GDP per capita in the PRC increased 188.1% from RMB7,858 to RMB22,640 from 2000 to 2008, and GDP in the PRC increased at a nominal compound annual growth rate of 14.9% from 2000 to 2008, based on data published by the National Bureau of Statistics of China.

The following table sets forth GDP and GDP per capita in the PRC from 2000 to 2008:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
GDP (RMB billion)	9,921	10,966	12,033	13,582	15,988	18,322	21,192	24,953	30,067
GDP per capita (RMB) . . .	7,858	8,622	9,398	10,542	12,336	14,053	16,165	18,934	22,640

Sources: National Bureau of Statistics of China; China Statistical Yearbook for 2008; Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development.

The generally rapid growth of the PRC economy since the beginning of its economic reform has led to a significant increase in disposable income per capita as well as significant growth in corporate assets. On the one hand, the increase in disposable income per capita has resulted in a higher demand for life insurance products as investment options and for protection-type and health insurance products. On the other hand, the increase in disposable income per capita has led to an increase in automobile ownership and household properties, prompting a higher demand for automobile insurance and homeowners insurance, among others. The growth in corporate assets has also driven the increase in demand for commercial property insurance. The rapid growth of the PRC economy has thus been the primary driver of the increase in insurance premiums in the PRC. The increase in disposable income, coupled with the expansion in the overall economy, the size of investments and the trade volume from imports and exports, has laid a solid foundation for the development of the PRC insurance industry.

Favorable Government Policies

The State Council promulgated its Certain Opinions on the Development and Reform of the Insurance Industry, or the Certain Opinions, in June 2006. Under the Certain Opinions, the insurance industry is a key component of the financial services sector and social security system of the PRC and plays an important role in the development of a stable and harmonious society. In this regard, the development of agricultural insurance, pension (including annuity) insurance, health insurance, liability insurance and insurance companies specialized in those products is strongly encouraged by the PRC government. Under the Certain Opinions, the investment channels for insurance funds are expected to be further broadened. PRC insurance companies are encouraged to invest their

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insurance funds into capital markets, including asset-backed securities, and gradually increase the percentage of such investments. Investments by insurance companies in real estate and venture capital companies will be implemented on a pilot basis, while investments in commercial banks and overseas assets will be supported. Under the Certain Opinions, the PRC insurance industry will expand insurance coverage to a larger population to meet the insurance needs of both urban and rural residents of different income levels and different occupations.

In addition, in an effort to combat the global financial crisis that unfolded in 2008 and to stimulate the PRC economy, the State Council promulgated the Several Opinions on Promoting Economic Development with Financial Policies, or the Financial Policy Opinions, in December 2008. The Financial Policy Opinions, among other things, seek to promote the roles played by the PRC insurance industry in risk protection as well as investment and financing. Under the Financial Policy Opinions, PRC insurance companies are encouraged to further develop pension insurance and to invest in a variety of bond instruments, including participating in transportation, telecommunications, energy and rural infrastructure projects in the form of debt investment, as well as investing in a prudent manner in equities of leading State-owned enterprises.

We believe that the guiding principles, overall objectives and major tasks set forth in the Certain Opinions and the Financial Policy Opinions indicate strong governmental support to the insurance industry and present unprecedented development opportunities for PRC insurance companies.

Moreover, the State Council has issued its opinions on transforming Shanghai into an international financial center and an international shipping center. The Shanghai municipal government has also announced relevant policies to implement the State Council's opinions. These opinions and policies are likely to create a favorable environment and new business opportunities for financial services industries, including the insurance industry, in Shanghai.

Social Welfare Reform

The PRC is in the midst of a social welfare reform, which gradually reduces or eliminates benefits that the government or State-owned enterprises have traditionally provided to their employees, such as housing, medical and retirement benefits, and shifts the responsibility for providing social welfare benefits to a mix of the government, enterprises and individuals. A multitiered social welfare and security system is gradually being established to provide basic pension insurance, corporate pension insurance and individual commercial insurance. In March 2009, the State Council released a series of social medical reform opinions and launched a related implementation plan, which encourage commercial insurance companies to develop diversified health insurance products and simplify claims handling procedures to better serve different healthcare needs of the population. The PRC government also supports insurance companies in their participation in basic social medical security services and prudent investment in medical institutions. In addition to offering group and individual insurance products to supplement the social welfare system, insurance companies are also permitted to cooperate with medical institutions in providing innovative medical service models and managing medical risks and to benefit financially from such cooperation.

Moreover, the PRC government is in the process of setting up a pension system that comprises basic social pension insurance, supplementary corporate pension insurance, or corporate annuities, and commercial pension insurance. To this end, the PRC government may adopt preferential tax policies and other measures to support the development of corporate annuity products and commercial pension insurance products. The State Council's opinions on turning Shanghai into an international financial center and an international shipping center, issued in April 2009, have also indicated that tax-deferred pension insurance products may be introduced on a pilot basis in Shanghai.

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These social welfare reform initiatives are expected to stimulate demand for life insurance, health insurance, pension plans and other insurance-related products, which will create new opportunities for the further development of the PRC insurance industry.

Change in Savings Habits

The traditionally high savings rate in the PRC, coupled with the wealth generated by the economic reforms, has resulted in significant increases in individual savings. Traditionally, households in the PRC have generally placed most of their savings in bank deposits and have invested relatively small amounts of their savings in life insurance products and pension funds. In contrast, households in the United States and United Kingdom have generally invested a substantially higher portion of their savings in life insurance products and pension funds. As disposable incomes rise, PRC consumers are expected to look to insurance products with investment-like features as well as other investment products as alternatives to savings accounts.

Demographic Transformations

The PRC is undergoing significant demographic transformations, including an increase in life expectancy, a decrease in birth rate, an ageing population and a growth in urban population and income, all of which are expected to create substantial growth opportunities for life insurance, health insurance and pension products.

For example, the percentage of the population aged 65 or older in the PRC is expected to increase from 7.7% in 2005 to approximately 11.2% by 2020, according to the National Development and Reform Commission. As a result of an increase in life expectancy and a decrease in birth rate, a typical family in the PRC would now have fewer income-earning members to support the elderly, which would further increase the demand for insurance products. The continued increase in rural residents' income in recent years, coupled with higher risk and insurance awareness among the rural population, has also made the vast rural area in the PRC an increasingly relevant insurance market and a potential driving force of long-term industry growth.

Global Financial Crisis

Since 2008, the PRC insurance industry has been affected by a profound global financial crisis accompanied by, among other things, substantial declines in the global and domestic stock markets. While total premiums of the life and property and casualty sectors in the PRC continued to grow in 2008, investment performance of PRC insurance companies suffered. The resultant volatile equity markets and low interest rate environment have added to the difficulty and complexity of insurance fund investment. Economic growth in the PRC has also experienced a marked slowdown in 2008, in particular with respect to those sectors of the economy that rely significantly on exports, thus adversely affecting the demand for certain insurance products such as cargo insurance and hull insurance.

While these recent developments have had an adverse impact on the PRC insurance industry, we believe that they have also led to a growing public awareness of risk and insurance and caused the PRC insurance regulators and many PRC insurance companies to re-focus on risk protection and risk management, to optimize product offerings and to embrace sustainable, value-enhancing growth. In particular, the CIRC has encouraged PRC life insurance companies to further adjust their product mix and shift their focus onto risk protection-type and long-term savings-type life insurance products. As a result, some PRC life insurance companies have started to focus more on long-term protection-type and long-term regular premium life insurance products. The PRC government's RMB4 trillion stimulus package in response to the economic slowdown is also expected to generate additional demand for property insurance products. Furthermore, we believe that the low interest rate environment in the wake of the global financial crisis has helped promote the sale of certain participating life insurance products. We believe that, aided by continued economic growth,

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favorable government policies, ongoing social welfare reform and favorable demographic transformations, among other things, the PRC insurance industry remains well positioned to benefit from substantial growth potentials over the long term.

INDUSTRY TREND

Diversification in Insurance Needs

As the PRC insurance market develops, customers have become more aware of their insurance needs. At the same time, the continued growth of the PRC economy has contributed to the consumptive power in the PRC insurance market. As a result, the demand for a greater variety of insurance products increases. In addition to traditional insurance products, liability insurance, health insurance and long-term savings-type insurance products have experienced a higher demand.

Increasingly Sophisticated Product and Service Offerings

PRC insurance companies have become increasingly sophisticated in their product and service offerings in recent years. Major insurers in the PRC have shifted their product development and marketing strategy from the one-size-fits-all single-product approach to a demand-oriented approach, with products tailored to different segments of their customer base, such as customers belonging to different age groups or income levels. Some PRC insurance companies have also started to train their sales forces to identify and offer customized products, which are of higher added value, to their customers. Consumers of insurance products in the PRC have also become more sophisticated. While they have generally started to become less price-sensitive than before, they are increasingly focused on an insurance company's ability to provide integrated and consistent end-to-end services from sales to claims payment. As a result, the competitive environment of the PRC insurance industry has become more complex, as insurance companies seek to differentiate themselves by offering value-added products and integrated services.

Diversification in Distribution Channels

Insurance distribution channels have been proliferating in the PRC. Insurance companies in the PRC have primarily relied on exclusive agents, ancillary agents such as banks and direct sales representatives to market their products. In recent years, there has been an increase in the use of new sales methods. Institutional agents and brokers have expanded rapidly as important distribution channels. In addition, alternative distribution channels such as Internet and telemarketing are emerging in the PRC insurance industry, in particular with respect to certain products, such as automobile insurance products.

Increased Investment Channels

Insurance companies in the PRC generally have limited investment opportunities due to the lack of available investment options and vehicles as a result of legal and regulatory constraints as well as the ongoing development of the capital markets. The CIRC has traditionally allowed PRC insurance companies to invest in corporate bonds issued by PRC companies that are rated AA or above by a CIRC-recognized credit rating agency. In 2004 and 2005, the CIRC further broadened the investment channels of PRC insurance companies to permit investment in government bonds, financial bonds (including central bank notes, policy bank financial bonds and subordinated bonds, commercial bank financial bonds and subordinated bonds, commercial bank subordinated term debts, insurance company subordinated term debts, RMB-denominated bonds issued by international development agencies), enterprise (corporate) bonds, convertible bonds, short-term financing bonds and other bonds as approved by relevant government agencies, RMB-denominated common shares listed on a PRC stock exchange, subject to various limitations. In March 2006, the CIRC began to permit insurance companies to invest indirectly in infrastructure projects. In October 2006, the

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CIRC issued a circular to allow insurance institutions to invest in equities of unlisted commercial banks up to 3% of the insurers' total assets. In June 2007, the CIRC, the PBOC and the SAFE jointly published measures to allow offshore investments by insurance institutions through insurance asset management companies or other professional investment institutions. Furthermore, the Certain Opinions promulgated by the State Council in June 2006 suggest that investment regulations would be further relaxed to allow more investment of insurance funds directly or indirectly in capital markets, asset-backed securitization products, real estate and venture capital companies, as well as overseas assets. In March 2009, the Standing Committee of the National People's Congress approved the amended PRC Insurance Law, which for the first time permits PRC insurance companies to invest in real estate. In March 2009, the CIRC issued a notice to allow qualified PRC insurance companies to invest in unguaranteed bonds. In the same month, the CIRC issued another notice, giving PRC insurance companies more flexibility in their participation in infrastructure debt investment plans. It is expected that the PRC government will further relax investment restrictions to allow insurance companies to invest in other asset classes, such as private equity. For more details on current supervision and regulation of investments of insurance funds, see the section headed "Supervision and Regulation — Use of Insurance Funds".

Development of Commercial Reinsurance Market

Following the elimination of the statutory reinsurance requirement, PRC insurance companies generally determine their reinsurance arrangements based on their own assessment of risk exposures in their insurance operations and their underwriting capacity. Prior to October 2009, direct insurers were required to offer no less than 50% of their proposed cession business to at least two professional commercial reinsurers incorporated or with establishment in the PRC in priority to overseas commercial reinsurers. This requirement has been eliminated with the implementation of the newly amended PRC Insurance Law. China Reinsurance Group and its subsidiaries, as the only local reinsurers, currently maintain the largest market share among commercial reinsurance providers in the PRC. However, prominent international reinsurers, such as Swiss Reinsurance Company, Munich Re, Cologne Reinsurance Company and Lloyd's, have opened their branches or subsidiaries in the PRC and have been playing an increasingly more important role in the PRC commercial reinsurance market.

Gradual Opening Up of the PRC Insurance Market

In addition to pre-existing and newly-established domestically-invested insurance companies, the number of foreign-invested insurance companies in the PRC insurance market has been increasing each year. According to the CIRC, as of 31 December 2008, there were 26 sino-foreign joint-venture life insurance companies in the PRC, collectively accounting for approximately 4.9% of the gross written premiums, based on PRC GAAP financial data, of all life insurance companies operating in the PRC during 2008. Also as of 31 December 2008, there were 16 foreign-invested property and casualty insurance companies in the PRC, representing a 1.2% market share in terms of gross written premiums, based on PRC GAAP financial data, of all property and casualty insurance companies operating in the PRC during 2008. As the PRC insurance market continues to open up to foreign investors, the market share of foreign-invested insurance companies may continue to grow.

Evolving Supervision and Regulation of the PRC Insurance Industry

The insurance industry is heavily regulated in the PRC. Established in 1998, the CIRC initially focused on regulating market behavior and curbing abusive practices by insurance providers. The CIRC has since promulgated a number of rules and regulations that regulate the market behavior of life insurance companies and property and casualty insurance companies as well as insurance intermediaries in the PRC to prevent and address risks that may arise from insurance market operations. For instance, in 2008, the CIRC took measures to curb illegal or otherwise noncompliant activities of property and casualty insurance companies, which helped create a business

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environment in the PRC insurance industry that encourages fair and orderly competition and compliance with laws and regulations. Beginning in 2003, the CIRC strengthened its regulation of solvency margin in order to provide better protection to policy holders. In 2008, the CIRC further revised the tests for financial soundness of insurance companies and adopted new rules that would allow it to take a variety of regulatory measures against insurance companies whose solvency margin ratio raises regulatory concerns. Since 2006, the CIRC has also focused on the soundness of insurance companies' corporate governance, risk management and internal control as well as compliance. In 2009, the PRC Insurance Law was amended in response to significant developments in the PRC insurance industry since the law's prior amendment in 2002. The amended PRC Insurance Law lifted the limitations on insurance companies' organizational forms and broadened their business scope and investment channels. At the same time, the amended PRC Insurance Law has added new regulatory requirements on related party transactions of insurance companies and imposed restrictions on activities of insurance companies that fail to meet solvency requirements, among other things. For more details on current supervision and regulation of the PRC insurance industry, see the section headed "Supervision and Regulation".

The CIRC is in the process of implementing a risk-based supervisory system for insurance companies. Under the risk-based supervisory system, insurance companies will be evaluated and grouped into different categories based on a set of criteria, including, among other things, corporate governance, internal control and operational risks. Insurance companies with less favorable evaluation results will be subject to more stringent supervision by the CIRC, whereas those with favorable evaluation results are expected to receive regulatory support from the CIRC, such as accommodations in new product approvals, establishment of new branches and deployment of insurance funds, among other things. A modern insurance regulatory system focusing on solvency margin, corporate governance and market behavior is evolving in the PRC.