Corporate Governance Reform through Internationalization: Case Study of a State Owned Insurance Company, China Life

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Abstract

Weak corporate governance has long been regarded as a major impediment for Chinese state owned enterprises to improve their international competitiveness. Although a number of reforms have taken place in China to address this issue, the policy result remains moderate. This paper discusses how some innovative Chinese SOEs use international listing as a springboard to overcome institutional constraints and take advantage of current financial globalization to secure highly sought after capital for both domestic and international expansion. This leads most importantly to better corporate governance practices, thereby improving their international competitiveness. This research is drawn from the in-depth study on the internationalisation trajectory of China Life, currently the world's largest insurance company in terms of capitalization, and particularly looks at its preparation for IPO launch in the New York Stock Exchange and corresponding corporate restructuring. The paper argues that the case of China life has shown a type of internationalisation that differs from that detailed by current internationalisation theories used to explain Chinese firms' global expansion.

Keywords: Internationalization, Corporate Governance, Overseas Listing, China Life

1. Introduction

As the core of China's corporatization scheme in the state sector, a handful of relatively recent works in English have begun to explore empirically various aspects of governance practice in the Chinese state owned enterprises (SOEs) (e. g. Tam, 1999; Qian, 1999; O'Conner, Deng and Luo, 2006; Liu, 2006; Fan, 2008), by bringing together scholars from different disciplines including economics, management and law. The contributions reflect a common effort to integrate empirical analysis drawn from new or unique data sources, on one hand, with a comparative institutional analysis of Chinese SOEs, on the other. However, these studies are mainly grounded in an analysis of corporate governance policy at an aggregate level, the methodological flaws of which can undermine their explanatory power. That is like trying to learn about the physical universe by using only the telescope of astronomy; most real understanding in physics has actually come from studying the interaction of their tiniest particles in the universe. For corporate governance studies, it is necessary to understand why individual companies operate as they do, since they are the ultimate source of profit and the objective for improving governance.

While there is a growing body of literature that statistically analyses the practical benefits and costs associated with overseas listings (e.g. Korczak and Bohl, 2003; Claessens Klingebiel, and Schmukler, 2002; Jia, Sun, and Tong, 2005), in-depth investigation into the process of the initiation, restructuring process, and post-listing adaption has been largely missing from the current corporate governance literature (Sun and Madera, 2005; Sun and Tobin, 2005). In line with this, this paper provides an in-depth investigation based on a case study of China Life, currently the biggest life insurance company in the world in term of market capitalization, with a market share above 40% in domestic life insurance sector.

We conjecture that the rationale underpinning the overseas listing of the state-owned insurer is to sort out the problem of liquidity shortage, rather than "establishing modern corporate system" in official's blunt language. The progress made in major dimensions of corporate governance, over the post-IPO period, albeit following a crisis-driven path, can be considered as the offspring of the international listing, which has successfully imposed a greater level of information transparency and a more stringent risk control onto the listed insurer. Such an in-depth analysis will be able to shed lights on the on-going concerns over insurers' information transparency and risk control in the aftermath of the financial crisis.

The rest of the paper is organized as follow: Part 2 provides background of China Life. Part 3 presents the literature review concerning the corporate governance development in state sector. Part 4 examines the motivation, namely the spread loss problem, for international listing. Part 5 discusses how the class action suit by public investors and capital market discipline induced China Life's improvements in information disclosure and transparency. While Part 6 discusses the improvement and inherent difficulties in establishing an effective corporate governance system, Part 7 analyses the achievements which have been made by the Company in respect to its profitability and solvency level. Finally Part 8 summarizes and makes concluding remarks.

2. Company Background

As the predecessor of China Life, the People's Insurance Company of China (PICC) received the approval from the State Council of the Central Government and was established in October 1949. During its first decade of operations, PICC made steady progress establishing regional branches and offices in a majority of the provinces, autonomous regions and municipalities. By 1956, all other insurance companies in the People's Republic of China (PRC) ceased operations and foreign insurance companies were required to leave China. Thus PICC became the state-monopoly insurer and the nationalization of the industry was achieved. In this sense, the State ultimately bore the risks of most hazards in almost every economic sector, against which insurance would normally be sought in other countries.

By 1952, PICC represented a national network of 1,300 branches and 3,000 agency outlets. Yet the Chinese government, in its effort to develop its socialism regime, determined that insurance was superfluous in a state where the government was meant to provide for all the goods and social welfare for its citizens. The overoptimistic leftists believed that China would not be far from converting into a communism country in which the commercial business activities would fade out and the social welfare for all the citizens would be guaranteed. In 1959, therefore, all domestic insurance business was ended. PICC's role was reduced to providing insurance covering the country's foreign policy needs, such as for the marine and aviation sectors. Under the guidance of a left-wing ideology, PICC had been converted into a department of the government's central bank, People’s Bank of China.

China’s “Reform and Open” policy in 1979 initiated a series of reforms with the purpose of stimulating economic growth. As part of the efforts to re-invigorate the economy, on January 1, 1984, the PICC was separated from the People’s Bank of China (PBOC) in 1982 and resumed its operations, making PICC the sole state-owned independent insurance company under the supervision of PBOC. As a monopoly, it was both the sole supplier of both life and property insurance, as well as the regulator of all the insurance activity. However, it initially had premium revenue of only U.S. $200 million and a mere 3,000 employees, remarkably small numbers for a country of over 1 billion people.

Following the enactment of the PRC Insurance Law in 1995, PICC was restructured into the PICC (Group) Company, with its businesses being transferred to three subsidiaries: PICC Life Insurance Company with a focus on life insurance, PICC Property Insurance Company with focus on property and casualty insurance, and PICC Reinsurance Company with a focus on reinsurance business[1]. In October 1999 PICC has been once again restructured, when the PICC Group had been officially split up into three independent business entities. The three subsidiaries were re-organized into three independent companies: PICC Property Insurance Company became known as PICC; PICC Reinsurance Company was changed into China Reinsurance Company, and PICC Life Insurance Company became China Life Insurance Company. In the aftermath of the restructuring, China Life began to petitioning the CIRC for authorization to go listing,

[1] As the state-owned monopoly had been disrupted in 1988 with the entrance of several shareholder-owned insurers including Ping An Insurance Company and China Pacific Insurance, a competitive insurance market began to take form. In response to the rapid developments in the insurance market, the National People's Congress (NPC) promulgated the PRC Insurance Law in 1995, which set forth the framework for restructuring and rationalizing China's insurance industry. One of the most important clauses of the 1995 PRC Insurance Law was to classify insurance into property and casualty insurance (including property, casualty, liability and credit insurance) and life insurance (including life, accident and health insurance). Thus a single entity was only allowed to provide one of the two services (but the later 2002 amendment of Insurance Law allowed one group to have both life insurance and property and casualty insurance subsidiaries).

which was granted in 2003. As part of the run up to the IPO, China Life restructured its operations, splitting the companies into three entities: China Life Insurance Company and China Life Asset Management Company, both of which were under a new shareholding institution, China Life Insurance Corporations (Group).

To attract as wide a pool of international investor as possible, while retaining all the long and medium term policies issued on or after June 10 1999, China Life launched its IPO on both the Hong Kong Stock Exchange and the New York Stock Exchange in December 2003. The IPO has proven a huge success, raising $3.5 billion and becoming the world's largest IPO for that year. The success of its IPO encouraged China Life to begin eyeing expansion into new business sectors afterwards. On December 28, 2006, as the first insurer listed on the Yuan-dominated A-share market, China launched its second IPO on Shanghai Stock Exchange, raising $3.6 billion on the first day. By the end of 2008, the gains from the a series of successful IPOs allow China Life to pass ING Group NV and Allianz SE, to become the world's largest insurer in terms of market capitalization.

3. Literature Review

Empirical studies (e. g. Tam, 1999; Tenev, Zhang and Brefort, 2002;

Ewing, 2005;) suggest that China's gradual approach to economic reform has resulted in a mosaic of borrowed and modified economic institutions not always compatible with the demands for building a well functioning market economy in China's social, political, historical and economic context. Tam (1999) argues that within such a context, the process of enterprise reform in China has essentially been based on compromise. As the core of state sector reform, corporate governance has been indentified by the Chinese government as the core element in the "modern enterprise system" (Tam, 1999). The reform policy focuses on corporate governance reflects the significant progress that China has made in building market institutions and the importance it attaches to corporate behaviors. Chinese economists (see e.g., Wu, 1994, pp.185) seem to have adopted a definition of corporate governance that is primarily influenced by the agency-cost theory and one commonly used in the Anglo-American environment.

Tam's study (1999) provides a detailed investigation into the role of corporate governance in China's development and reform of large SOEs. One of the major findings is that the current top-down approach to corporate governance development, based largely on duplicating governance structures from the stylized Anglo-American model is not effective and unlikely to serve its intended purposes. Indeed, these SOEs are still far short of “being modern industrial corporations” (Nolan and Wang, 1999). O’Connor, Deng and Luo’s work (2006) extends the literature on Chinese SOE reform by examining the mediating influence of political constraints on organizational design in China’s SOEs. These constraints include strategic importance to the national economy (Nolan and Wang, 1999), complementarities among reform packages (Pei, 2006), and regime legitimacy (Pei, 2006).

On one hand, as these political constraints are in play along with market liberalization forces (Li, 2000), it is likely that the effect of market forces on the organizational design or decisions of SOEs is mediated by political constraints. For example, market competition has a positive direct effect on the adoption of Western management controls (e.g. Firth, 1996), but also an indirect effect because it is associated with higher growth industries, which were the first to experience the reduced political constraints (Chen, 2000) that can slow the adoption of Western management controls. On the other hand, with the regard to various managerial mechanisms, empirical evidence suggests that the dominant state ownership still gives the CCP control over managerial appointment and incentives (Tenev, Zhang and Brefort, 2002). Thus not only do individual investors need to worry about the traditional principal agent concerns (Holmstrom and Roberts, 1998), but also face the fact that chief executive officers (CEOs) may act in the political interest of the CCP. In this view, China's large SOEs are not only facing the problems in governance similar to those in developed economies but also inherited problems form their centrally plan past (Cheng and Lawton, 2005).

Although China's exposure to the ongoing credit crunch is still limited, due to the closed nature of the country's financial markets, the sudden downfall of several prominent global institutions and increasing discoveries of losses on derivative instruments among large SOEs has authorities concerned about the governance system in large SOEs (JP Morgan, September 2008; Beijing Review, 22 Jan 2009). At the same time, studies by McKinsey (Dietz, Orr and Xing, 2008) suggest that poor governance has remains as the main obstacle to SOEs' global expansion, which calls for more progress to be made at an institutional level. In other words, the opportunities and challenges from globalization expose large SOEs to the urgent need to tackle corporate governance issue in a comprehensive and systematic manner (Bonaglia, De Macedo and Bussolo, 2001).

Peerenboom (2007) finds that rather than all states converging on a similar form of market economy with common institutions, policies and modes of production, distinctive varieties of capitalism have arisen as a result of institutional entrenchment, cultural difference and dissimilarities in the political economies. Indeed, reforms in regulatory realm that are needed to bring about the institutional convergence are likely to be politically difficult at least in the short to medium run (Denis and McConnell, 2003). Thus, Coffee (1999) argues that the transition is likely to follow the path of least resistance and that evolution in corporate laws and practices will be more functional rather than formal. In this sense, Tam (1999) suggests that China's corporate governance development should be performance-oriented and not just focus on conforming to static criteria from stylized models.

Vogel (2006) presents a more dynamic picture of modern institutional adaption and change in under the impetus of economic pressure. His work is considered as one of the most comprehensive analysis of Japan's current reforms that the Japanese government and various industrial sectors have undertaken since the 1990s, ranging from labor relations and financial system to corporate governance. He draws attention to the fact that while the existing institutions have left heavy imprints on various reform measures and have prevented Japan from converging on the liberal market model, the prolonged economic crisis and growing pressures from globalization have propelled actors to go beyond routine adjustment. Thus, the concept of "patterned innovation" developed by

Vogel is able to shed light on the way in which industries and government actively devise innovative solutions for new problems instead of being entirely constrained by political settings (Chen, 2008). By examining the shareholding structure of over 800 listed companies in the mainland stock market, empirical study by Tian (2001) suggest a U-shaped non-linear correlation between state-ownership and listed companies' value. In the "grabbing hand" literature, the government has been often perceived to maximize its political utility through its ownership in the listed companies while expropriate the interest of minority shareholders. However, with increased control rights of the government shareholder, the probability and the extent of the expropriation of the government shareholder increases and corporate value decreases until a certain threshold. The analytical prism is simple. When the cash flow rights of the government shareholder are sufficiently large, the government, however, has no incentives to continue to increase the magnitude of its predation in this firm (Tian, 2001). In contrast, with a large shareholding stake, the government shareholder offers a helping hand to these firms. Because of its financial interest based on corporate profits, the large government shareholder has incentives to improve corporate value for the residual cash flows by providing preferential treatments on one hand, and pursuing higher governance standard on the other.

4. Motivations for China Life's Overseas Listing

An insurer's spread loss occurs when the return rate of insurance premium investment becomes lower than the assumed interest rate already embedded in the mid or long-term insurance policies. In other words, a spread loss has arisen as a result of the reduction of interest rates, or insurance companies finding themselves unable to earn investment returns on their assets greater than those guaranteed in their insurance policies distributed to customers in the past. While the interest rates are being compressed towards zero by various reasons, long term insurance products with high assumed interest rate tend to cause the spread loss and further harm insurance companies' solvency. The insolvency issue might deteriorate so seriously that the insurers eventually go bankrupt[2].

[2] A prominent example for this problem is the successive bankruptcy cases of Japanese life insurance companies in the early 1990s. During the "bubble economy" era of 1980s, Japan's economy posted a strong growth and a sharp increase in the values of real estate and stocks, in stark contrast to the more pedestrian growth that other developed economies experienced in the west. The fast paced growth came to a halt in 1991, however, as the Ministry of Finance grew concerned over the prospects of a rising inflation rate, thus, accordingly, tightened the nation's money supply by raising the interest rate. In response to a series of interest rate hikes, Japanese insurers had been continuously raising the pre-determined rates built into their insurance policies to the peak of 6.25%.

As Japan's Ministry of Finance had been putting the high flying economy on a monetary diet to stem inflation, Japanese economic growth has fallen sharply and the once assets-inflated economy has experienced a radical shift from boom to bust, characterized by massive asset deflation, rising unemployment rate, and falling corporate profitability and shrinking investment activities. Between roughly 1996 and the start of 2005, a prolonged period of extremely low interest rates and stagnating stock prices, Japan's life insurance companies gradually saw their financial situations deteriorate rapidly as their asset investments fell short of the guaranteed yields promised to policyholders. At the same time, accompanied with the rapid appreciation of the Yen, insurers engaged in overseas investment made against other foreign currencies had witnessed significant exchange losses. Over the 1990s, the widespread spread losses have occurred to almost all the life insurance companies in the country, which coupled with other operational problems had caused six large insurers' bankruptcies between 1997 and 2000, including Nissan Life Insurance, Chiyoda

As far as China's insurance sector is concerned, insurance products with high assumed rates had similarly been applied as one of the means for expanding market shares during the early 1990s characterized by high inflation rate. Unsurprisingly, as a result of the subsequent interest rate reduction, the problem of spread loss had arisen among the major domestic insurers. By the end of 1997, premium income derived from high assumed interest rate insurance products above 7.5% was totally reached 80 billion RMB. From 1996 to 1999, the central bank of China made several cuts in interest rates, reducing the income the insurers were able to generate on their investment assets to below the guaranteed rate it was required to pay on its policies. For example, investment return rate for China's life insurance companies had witnessed a persistent decline since 1998 and dropped down to an even lower of 3.4% in 2003, which was in a sharp contrast to the average assumed interest rate of 7.5%.

Unexceptionally, as the only solely state-owned insurance company in the county, while China Life had offered a huge amount of insurance policies with high standing pre-determined rate over the 1990s, the disappointing investment return and the resultant severe spread loss undoubtedly

Life Insurance, and Kyoei Life Insurance. In other words, such a large-scaled spread loss in Japan's insurance sector can be attributed to the insurers' over reliance on the insurance products with high assumed interest rates as the main channel of market expansion during the inflating period, accompanied with a radical interest rate cut and lower investment returns.

constituted a heavy financial burden for the domestic insurer. Although the predetermined rate embedded in later issued insurance policies have been maintained at rather low level (for example, in 2004 the assumed interest rate of life insurance products had been maintained at a much lower level of 2.5%), the potential insolvency risk inherited from the past "negative spread" not only casted a shadow over the company's financial soundness but also the inhibited the development of China's insurance industry.

While the legacy of central planning may have played a unique role in generating many of China's financial institutes' problems today, one should not overlook the presences of several other factors such as macroeconomic cycles and deficiencies concerning the risk management and internal control of a financial institute. As the latter have been found important to other countries in triggering the insolvency cries in financial sector, a closer examination of the past poor governance practices in such a solely state (according to our interviews with several general managers at the provincial level in China Life), also reveals some other factors at play in contributing to the spread loss problem.

1) Indiscriminate pursuit of sales scale and ignorance of the industry's own risk characteristics. Under the slogan of "invigorating the

national insurance industry", "fighting for the market, competing for the share" had been proposed as the chief business objective, which can conceived as of rather strong political flavor. This inevitable resulted in the company's overemphasize on the expansion of market shares, while sacrificing the financial soundness.

2) The lack of effective supervisory mechanism and the absence of owner. Due to the lack of a modern enterprise system, managerial staffs within such a solely state-owned enterprise were still more inclined to appear in the company's daily operation in an official capacity rather an entrepreneurial capacity. Moreover, the absence of real owner leaves the managers in the vacuum of effective supervisory and balancing mechanisms, which in turn induces the emergence of such non-commercial practices.

While restructuring China Life's capital structure has been considered as the "flagship" reform model for other non-bank financial institutions, the Company had been offered a number of measures, among which developing new insurance with high profitability has been regarded as the most effective way and conforming to international common practices. Nevertheless, according to Goldman Sachs' proposal, to completely offset the total loss was estimated to take 6 to 12 years. The persistence of capital shortage would prohibit the insurer from launching its new insurance products, albeit highly profitable, according to the according to the insurer' supervisory body, the China Insurance regulatory Commission (CIRC). In addition, as the CIRC would gradually loosened the limitation of trans-provinces operation and granted more freedom to both domestic and foreign insurers companies to open more branch companies, China's WTO commitment would place China Life into a rather competitive market, with the loss of informal support required by China's WTO accession. Such a vulnerable compensation capacity would have certainly put the domestic insurance giant at a rather serious disadvantage facing the upsurge of intensive competition against foreign insurers.

On one hand, while one of the most-cited reasons for public listing in developed economies is that it loosens the financial constraints faced by firms and facilitates their business expansion (Roell, 1996; Pagano, Panetta, and Zingales, 1998), China's stock markets have been generally perceived as a domestic avenue for helping China's SOEs raise capital, giving them a chance to start with a clean balance rather than the poor one inherited from the past (Stiglitz, 1998). With the aim to raise capital to finance pension and social security funds, the state had been gradually decreasing the state shareholding s in the corporate sector. At the very onset, the sell-off attempt was met with a negative response in the stock market, simply because there was suddenly a vast supply of equity without a significant increase in funds flowing into the market, which was obviously harmful to the benefits of holders of existing tradable shares. During the period from 2000 to 2004, while China's GDP grew by 53 percent, the Shanghai and Shenzhen benchmark indexes fell by more than one-third each (Qiao, 2006). Therefore, as the growth of domestic capital market had generally remained stagnant, the limited capital volume was bound to strain the liquidity of the domestic capital market and place a curb onto the capital-to-be-raised. On the other hand, apart from the problem of capital inadequacy, the Chinese authorities were aware of the need to magnitude the poor corporate governance problem and inclined to use overseas listing as an alternative mechanism to impose higher standards of corporate governance onto SOEs. Therefore, rather than commercializing the Company in an environment that has lacked a mature corporate system for a long time, it is expected that the corporatized insurer will progressively be disciplined and organized in a manner towards an increasing consistence with international corporate governance standards, although some degree of state ownership is inevitable.

In a similar situation to other State owned Banks' (SOBs) restructuring and IPO programs (e.g. Bank of China, see Sun and Tobin, 2005), stripping off non-performing assets and recapitalizing the Company through overseas listing have been regarded as the most feasible and effective way, in terms of its lower cost and greater operability. The shareholding reform of China Life has been initiated since 2001 and finally accomplished in September 2003. Upon the approval of the State Council and CRIC, in June 2003, China Life has been restructured as China Life Insurance Group Company (hereinafter referred to as the shareholding group or parent Company) which exclusively initiated China Life Insurance Company Limited (hereinafter referred to as the Company) as the to-be-dual-listed company in both New York and Hong Kong.

According to the restructuring proposal, on one hand, the to-be-listed company would be transferred to all the main insurance policies, their accessory policies, and other reinsurance products approved by CIRC since the June of 1999. On one hand, consequently， China Life Shareholding Group, as the main shareholder of the listed company, would have to retain the unexpired insurance policies with high pre-determined rate, in the meanwhile prohibited from developing its new business activities correlated to health and life insurance in order to avoid unnecessary horizontal competition against the listed company.

Correspondingly the listed company has to assume all obligations and liabilities under these spun-off insurance policies, while the shareholding group continues to be responsible for its liabilities and obligations under those retained policies following the restructuring.

As a major part of the restructuring scheme, the shareholding group has established, together with the MOF, a special co-administrated fund for the purpose of paying claims under the retained insurance policies. In order to guarantee the capital source in the case of funding gar due to insurance payment, approved by the MOF, the capital sources for this mutual fund mainly consist of:

1) the investment assets retained by the parent company;
2) renewal premiums paid on the non-transferred policies over time;
3) the refunded tax payments made by the parent company, China Life and their joint venture of an Asset Management Company (AMC);
4) investment profits from mutual fund, as well as the shareholder dividends paid in cash to CLIC by China Life;
5) income from the disposition of China Life shares by the Group in the future;
6) as well as the capital injected by the MOF in the event of a deficiency in the special purpose fund.

While the fund has been co-administered and co-supervised by the parent company and the MOF, such a mutual fund is expected to satisfy the shareholding group's operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the mutual fund, including third-party management fees and professional fees, and such other purposes as the management committee of the fund may agree. Therefore, the establishment of the mutual fund became not only the cornerstone of the whole restructuring scheme, but also the key for the ultimate settlement of the spread losses.

In order to attract and retain international investors, the Chinese authorities had recognized the importance to review and improve the Company's corporate governance structure and to conform it towards international standards. The purpose of the restructuring scheme, in addition to provide a stable source of capital, is to transplant a scientific governance structure into the spun-off subsidiary. However, as part of the IPO preparation, this only stayed on the layer of replicating a basic governance structure required by the 1993 Company Law. In line with the requirement of Company Law of 1993, board of directors and supervision board had been introduced into the listed company in preparation for its overseas listing. Among the 7 directors in the former, 2 of them (Mr.

Long Yongtu and Mr. Zhou Dexi) had been employed as the independent non-executive directors, while the rest was mainly nominated by the shareholding group given its dominant ownership stake.

A popular means for optimizing the governance structure is to provide both domestic and foreign institutional investors with an opportunity to increase their equity participation in the board though private placements. In this case, no longer silent partners, foreign investors will be in a position to bring new management approaches, better incentive systems, greater transparency, and a whole new level of corporate governance. However, such a general practice had been considered by the CIRC to have the best opportunity for China Life's IPO missed due to the lengthy procedures. As the State Council and CIRC decided to accelerate the IPO scheme, while China Life had selected China International Capital Corporation (CICC), Citi Group, Credit Suisse, and Deutsche Bank as the chief underwriters, Lehman Brother as the financial advisor, and PwC as the auditor.

To attract as wide a pool of investors as possible, China Life launched its IPO on both the Hong Kong Stock Exchange and the New York Stock Exchange in December 2003. On one hand, the share offering represents about 25% of China Life's total capital, of which 91% represents new shares, and the remaining 9% consists of existing shares sold by its unlisted parent company. With 72.2 percent owned by the parent company and the rest by public investors, the shareholding structure of China Life remained highly concentrated. From the perspective of corporate governance, the 27.8% ownership allocated to public investors is too small to influence on the nomination of board directors, not to mention the resolution at the shareholding meeting, which results in the boards dominated by insiders. On the other hand, the IPO has been proved a huge success, raising $3.48 billion and becoming the world's largest for that year. The retail offer had been oversubscribed by 172 times, and the total order had reached $80 billion. The institutional tranche of the offering was oversubscribed by more than 15 times, with orders topping US$55 billion in worth. The retail tranche was oversubscribed by more than 100 times, with frozen capital between US$25 to 26 billion in total.

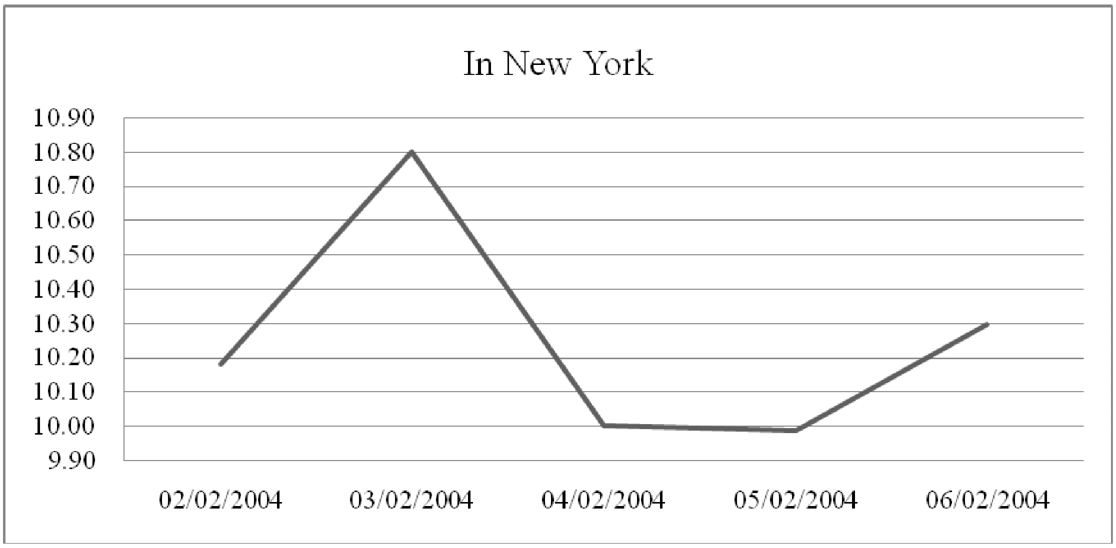
While the overseas listing of China Life has been a great success in terms of capital raising and financial expansion, there has been a debate about the whether the cross-border listing leads to a meaningful improvement in the Company' governance practices. While inchoation of the modern corporate governance structure has been just formed, there exist many inadequacies and the governance mechanism in China Life is far from being modernized. Instead of an effective and reassuring governance mechanism, the success of gaining access to foreign capital can be mainly attributed to China Life's remarkable market status and investors' rather optimistic longings to China's growing insurance sector. Put aside their decision-making power in the board, there still exist public investors' concerns over the listed company's labyrinth of relation with its parent company and the likelihood of expropriation by the state shareholder. The succeeding auditing problem and the later class action lawsuit against the Company's failure of information disclosure have casted a justifiable doubt onto the Company's governance practice by foreign investors, bringing the governance issue of China Life under the spot of international capital market. Although the listing requirements imposed by NYSE have been considered as markedly more stringent than other major developed capital markets, by simply fulfilling the structural requirements it does not mean a direct improvement in the quality of the Company's governance practices. In other words, to truly change the governance practices of an SOE is a lengthy process of learning, which requires a more fundamental change in the authorities' mind and soul.

5. Market Transparency and Improved Transparency

On February 2 2004, the results of the 2003 Audit Report by the National Audit Office of China (CNAO) reveals an equivalent of about $652 million worth of irregularities involving China Life's parent company. In a statement on the CNAO web site, Mr. Li Jinhua, the head of the CNAO, was quoted as saying that these irregularities at China Life Insurance Company, the equivalent of $652 million in total, includes 23.8 billion Yuan involving illegal agent services and the overpayment of surrender, 2.5 billion Yuan in embezzled funds and 31.79 million Yuan in hidden cash reserves (Xiao Jin Ku). On the same day of this announcement, the price of China Life's American Depository Shares declined in reaction to such a scandal, falling by $2.13 or 7.39% per share from its previous day's closing price, to close at $26.67.

Despite an official declaration claiming that these irregularity problems is connected with the shareholding group rather than the listed company, China Life suffered a financial downgrade by almost the most influential rating agencies, which was accompanied by even worse stock performance of the Company (see Figure 1 and Figure 2). On March 16 of the same year, in the USA, several class actions have been filed against certain officers and directors of China Life by stockholders who purchased the company's common stock between December 22, 2003, and February 3, 2004. The actions claimed that the listed company violated the Securities Exchange Act of 1934 by issuing a series of material misrepresentations in the share-soliciting prospectus to the market over this time period, thereby artificially failing to disclose the relevant audit problems and inflating the price of the company's stocks in New York Stock Exchange. Entrusting the law firm Milberg Weiss, the stockholders thus sought to recover compensatory damages for the loss of their share values.

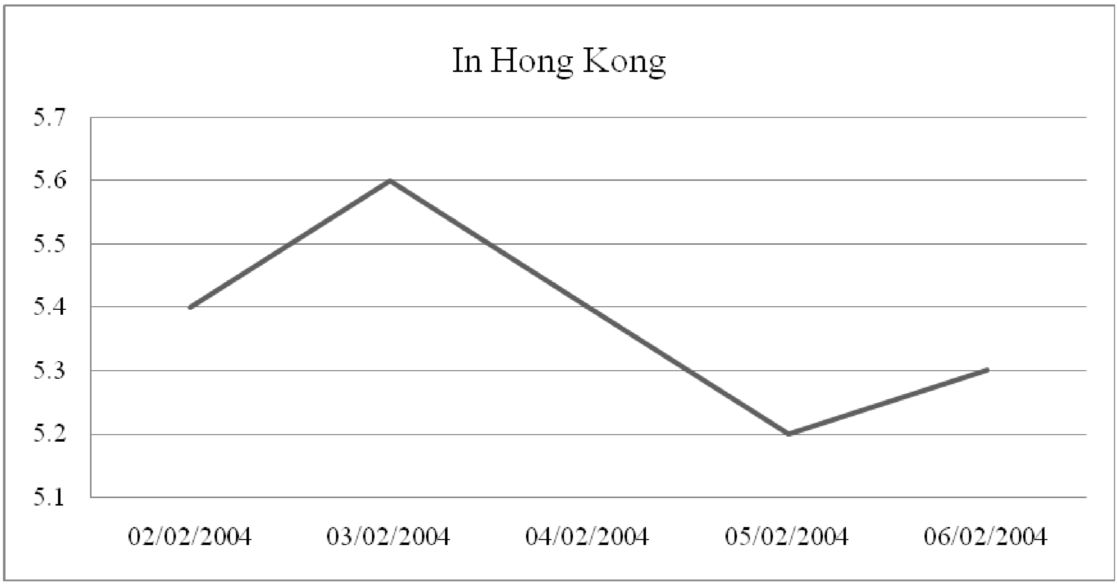
Figure 1: Weekly Stock Performance of China Life since the Announcement Day of the Irregularity Problem, in US$



Source: Thomson DataStream

In a subsequent written decision by the CNAO, the shareholding group, instead of the listed company, had been disposed to hold accountable for the audit problem and a penalty of 11.09 million Yuan. However, as the law suit remained unsettled till May 2010, the information disclosure mechanism and the transparency issue of the listed company became a matter of concern for all the investors and supervisory bodies. Implicit in this lawsuit is the persistent anxiety and suspicion by investors over the corporate governance practices in SOEs, given the state's dominant shareholdings in listed companies, or rather, the likelihood of expropriation by the state shareholders and the uncertainty about the effectiveness of check-and-balance mechanisms.

Figure 2: Weekly Stock Performance of China Life since the Announcement Day of the Irregularity Problem, in HK$

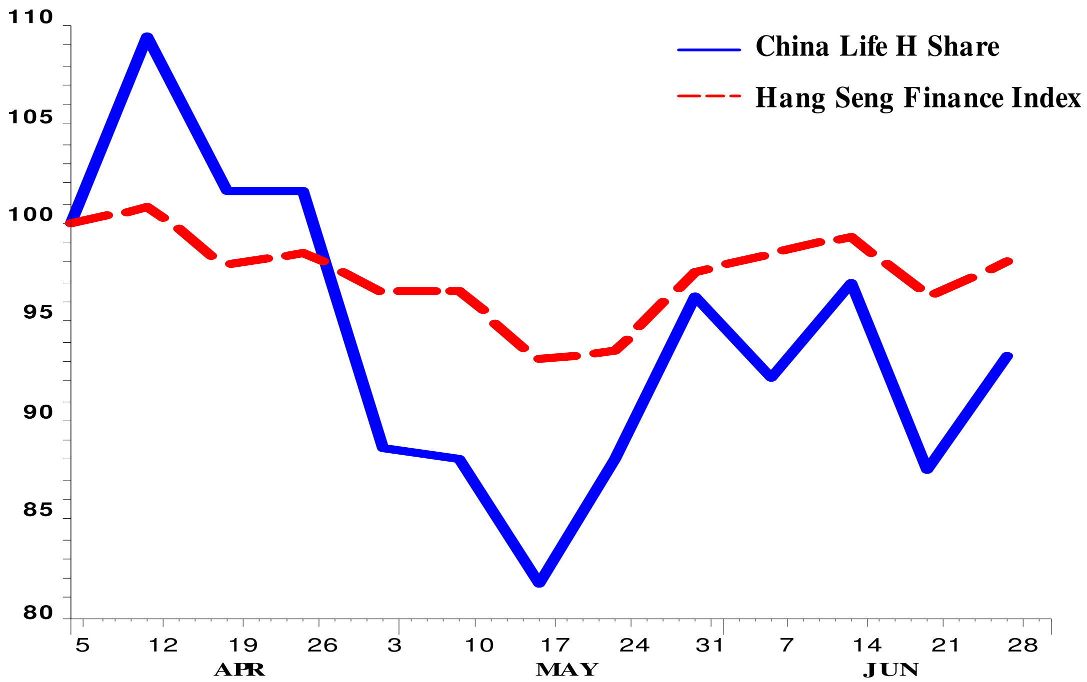


Source: Thomson DataStream

The fact that a number of irregularities have been uncovered only recently after five years of overseas listing indicate the seriousness of broader transparency problems in China's insurance industry. Although the irregularity problem and the failure of information disclosure, not directly part of the listed company, have their very roots deep in the distant past, the fact that such revelations appears at the present to be largely concentrated in the listed company should be regarded alternatively as the very positive consequence of the overseas listing (Sun, 2005). Although the irregularity problem does not have a direct link with the listed company, the central litigant of this lawsuit having been the chair of the board and several independent directors of this restructured flagship company in China's insurance sector certainly caused great concerns among public investors. The image of the Company has been further tarnished, as the independent director of HKSE, Mr. David Webb, requests an immediate suspension of China Life's share transaction due to the inadequate information disclosure.

As a consequence of the once-hidden irregularity problem, the Company was immediate punished by the capital market for its poor compliance with the international standard for information disclosure. Due to the Company's downgraded credit rating, its share price began to under-perform both the Hang Seng Finance and the NYSE Financial Indexes since the announcement day of audit problem till the beginning of June (see Figure 3 and Figure 4), despite a significant recorded improvement in its financial performance in its 2003 annual report.

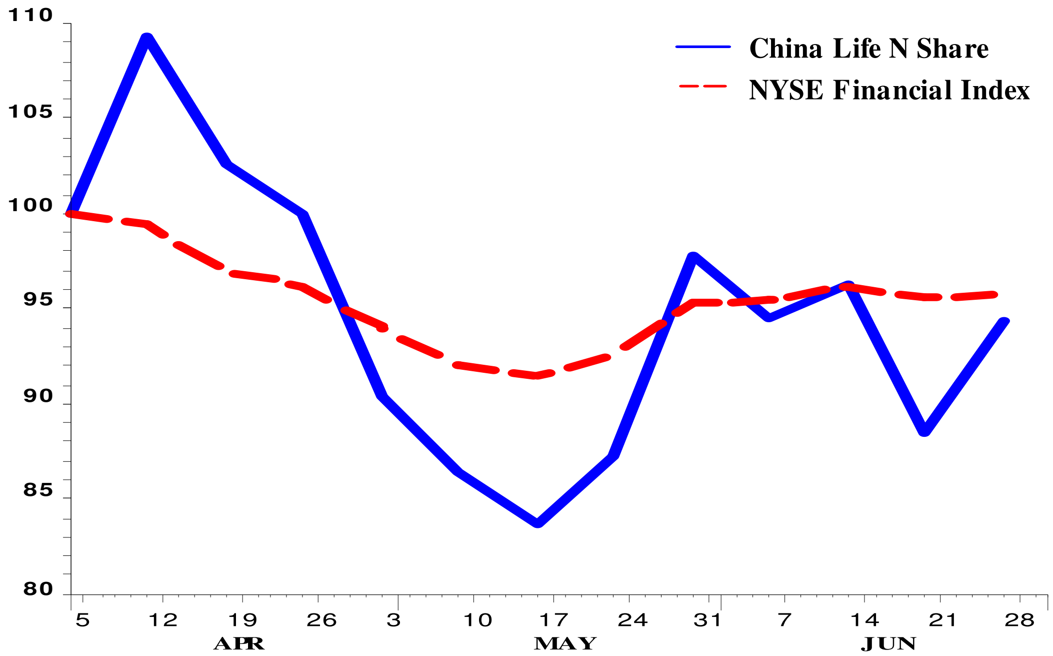
Figure 3: Stock Performance of China Life H Share against Hang Seng Finance Index, with 04/0402004 equal to 100



Source: Thomson Datastream

Although the listed company does not have any continuing obligations to holders of the non-transferred policies, the biggest concern for public investors is the potential expropriation of their interest by the shareholding group in the event of any deficiency in the fund to meet the payment obligation arising out of the non-transferred policies. In this case, item 4 in the Company's Form 20-F for the 2003 fiscal year has further specified a promised capital injection by MOF to ensure the payments of benefits and claims to the policyholders of the non-transferred policies as the remedy[3].

Figure 6: Stock Performance of China Life N Share against NYSE Financial Index, with 04/0402004 equal to 100



Source: Thomson Datastream

As the concerns regarding the financial risk control and the potential related party transactions grew, the resolution of the transparency issue is no longer accepted merely on several official declarations. This sets forth even more challenging requirement for China Life's information disclosure mechanism, as well as its organizational structure. In

[3] According to the Company's Form 20-F for the fiscal year ended December 31, 2003, submitted to U.S. Securities and Exchange Commission not long after the announcement of CNAO's decision, the co-administrated fund will be dissolved as soon as all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee agrees.

attempting to correct the problem, the Company held negotiation with its domestic regulatory body, CIRC, over the best manner to in which to solve the crisis. As a result, on one hand, right from the start of the lawsuit, supplementary materials with a particular focus on the settlement of spread loss have been included in the Company's financial reports, giving an adequate description of the financial condition of the state shareholding agency and the mutual funds as the main source of capital for covering the loss. To a great extent, the unearthing of the once-ignored information has alleviated investors' concerns over the possible expropriation by the state shareholder arising from the spread loss settlement. On the other hand, in order to strength the independence and effectiveness of the audit committee, six regional audit centers (Quyu Shenji Zhongxin) with direct responsibility to the committee, has been established in 2008 to replace the various audit offices once subject to the inference from their superior headquarters. However, as several company auditors said during our interviews, in the actual practice of the audit work, difficulties still exist, of which the most prominent one is the auditors' unfamiliarity with their work. Although several officials in the audit committees obtained their master and PhD degrees in finance or accounting related subjects, a thorough audit of the Company's business risks and the hidden irregularities also requires the officials to be well aquatinted with the insurance business. However, as the audit work has generally been perceived as the positions ready for retirement, the chief auditors mainly consist of senior staff that had years of administrative work experience, rather than sales activities, before the Company's overseas listings. This undoubtedly, results in a great reduced quality of the effectiveness of the audit work, in terms of the thoroughness and fairness.

Despite there remains various inadequateness, the resulting high level of information disclosure from overseas listing has proved to leave less room for the Company to cover up underhand practices. As the concerns regarding the Company's premium confirmation process, risk management, and internal control still persist, any information, related to the Company's governance inefficiency, brought into the public domain, will surely exert significant impact onto its stock performance, making the Company's corporate governance practice subjected to stronger capital market discipline than other domestic listed SOEs. They provide the evidence that both the preparation for overseas listing and the subsequent investor relation maintenance in such developed capital markets do force a greater level of transparency. The shareholding group, together with its supervisory body has provided a firm basis to strength the conformance and performance role of corporate governance arrangement (Tam, 2000).

6. Board Compositions and More Inherent Problems

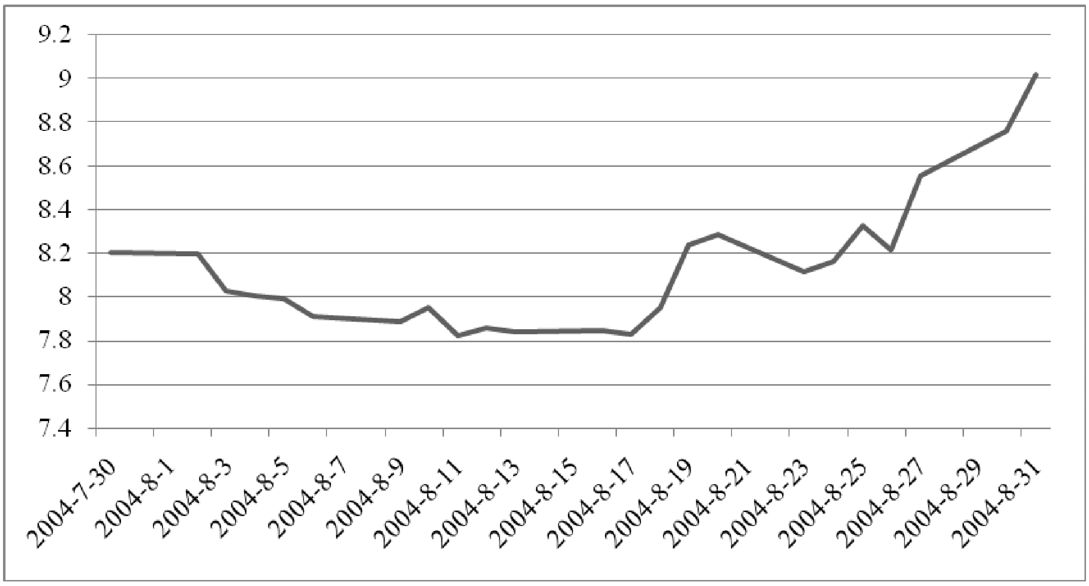
Empirical studies (e.g., Sun and Tobin, 2005) suggest that international listing can provide an effective mechanism to mitigate the consequence of controlling shareholders' discretionary power and managerial opportunism at home because the listed companies are now disciplined and regulated by a more developed capital market outside the home jurisdiction. While China Life's IPO preparation has induced in-depth improvement in its financial condition and noticeable change in the governance structure, the dominance of state ownership via the parent company, to a great extent, has controls the selection of board directors and senior managers, as often seen in other overseas listed Chinese state enterprises (Sun, 2005). From the perspective of corporate governance, the 27.8% percentage of shares allocated to public shareholders is too small to exert influence on the election of board members or other resolutions at the shareholder meeting, while China Life Shareholding Group still retains a typically hierarchical type of control over its listed spun-off subsidiary.

Unsurprisingly, while the nomination for all the directors have to be agreed upon by the CIRC, the listed company has maintained a board with a substantial majority of directors (3 out f 5) that have been meanwhile serving both the board of directors and party committee in the shareholding group. This confirms with the general perception that most of the Chinese listed companies have not really achieved enough autonomy from either their state shareholding agencies or their corresponding supervisory bodies. In this case, albeit the appointment of independent non-executive directors has been regarded as a practice of rather rarity in China's listed companies at that time, their role as a counterbalance in the board has been casted serious doubt by the state agents' dominance in the board.

However, the Company's desire to improve its governance structure has seemingly indicated a further departure from such a general perception about Chinese SOEs. According to the Sarbanes Oxley Act of 2002 and the regulations enacted by Hong Kong Stock Exchange in March 2004, the Company's board of directors has been expanded and supplemented up to 9 members, with 3 independent directors and 2 outside supervisors.
Apart from the Strategy committee, the chairmen of the other two committees, namely the Risk Management Committee and Audit Committee, have been assumed by independent non-executive directors, while the later consisted of all the independent non-executive directors of the listed company, including a financial specialist.

While the Company Law of 1993 and the relevant listing regulations by stock exchanges serves only as a general guidelines, a series of more detailed guidelines and specifications has been approved and enacted by the board, which includes “Code for Employee Behavior” (Yuangong Xingwei Shouze), “Code of Professional Normal for Senior Managers and Directors” (Gaoguan Dongshi Zhiye Daode Zhunze), “Guidebook for Internal Control and Prevention of Fraud Risk” (Fangfan Wubi Fengxian Neibu Kongzhi Shouce), and “Mechanism for the Internal Management of Financial Report” (Caiwu Baogao Neibu Guanli Jizhi), and consequently the internal control and supervisory mechanisms have been further standardized and strengthened. Thus, along with the disclosure of the semi-annual financial report of 2004, the Company received a positive perception by the international capital market for its continuous efforts in improving the governance practices. Figure 7 shows that within the week of the financial report disclosure, the stock price for China Life has upswing by more than 10%.

Figure 7: Monthly Stock Performance of China in NYSE since the Disclosure of Semi-annual Report in August 2004 in US$



Source: Thomson DataStream

However, far above a simple compliance with relevant regulations, an essential improvement in governance practices has been discouraged by various both internal and `external factors, such as the effective of implementation process and the investment motives of public investors. Firstly, although all four independent directors have had long and high-profile professional careers outside the listed company and do not process career or business connections with any Chinese life insurers, their effectiveness has been questioned by the particularity of life insurance industry and the trade-off between independence and expertise. Secondly, the non-executive directors acting as the supervisor over the Company's governance practices have actually been nominated by the party committee of CIRC, which at the same time retains the ultimate authority over the personnel selection of other senior managers and directors nominated by either the shareholding group or others. In this sense, along with the shareholding and administrative inference, the members of the party committees at various levels, appearing as the representatives for the state interest exerts unshakable influence over the company's operation and performance. Thirdly, another problem arising from the ownership concentration is that pubic investors, holding a rather passive point of view of "not being violated", will pursuit their financial gains in the listed company rather than an active and persistent participation into corporate governance practices, given the unshakable ownership dominance of the state and the ultimate control by the party committee. Figure 8 shows that the transformation of high frequency for the top 5 minority shareholders on the listed company, indicating that the major investment motives for these institutional investors is a short term financial gains thanks to the listed company's extensive distribution network of sales agencies throughout the domestic insurance sector, weakening the power of minority shareholders to influence governance practices. The progress of the company's governance reform, although limited in the nature and concerning mainly to the internal governance mechanisms (e.g. the nomination and selection of directors are still controlled by the party committees), needs to be viewed in terms of a broader movement of the insurer towards sound corporate governance practices in general.

Figure 8: Transformation of the Top 5 Minority Shareholders in China Life from 2003 to 2009

2003	2006	2009
Li Ka-shing	Lee Shau Kee	HKSCC Nominees Limited
Li Ka-Shing Unity Trustee Company Limited	Leeworld (Cayman) Limited	State Development and Investment Corporation
Li Ka-Shing Unity Trustee Corporation Limited	Leesons (Cayman) Limited	China National Investment & Guaranty Corporation
Li Ka-Shing Unity Trustcorp Limited	Lee Financial (Cayman) Limited	ICBC-Lion Stock Securities Investment Fund
Cheung Kong (Holdings) Limited	Shau Kee Financial Enterprises Limited	ICBC-BOSERA Third Industry Growth Stock Securities Investment Fund

Sources: China Life Annual Reports for Fiscal Years of 2003-2009

7. <u>Improvement in Financial Performance</u>

The reorganization of China Life capital structure certainly gave it greater scope to achieve profitability and efficiency improvement. Without being constrained by the legacies of its previous loss-making policies, the capital injection from its successful IPOs certainly encourages the Company's expansion into business sectors (including corporate annuity and brokerage services) and diversification of its investment portfolios. In addition, apart from the most extensive distribution network in the domestic market of its own, given the Company's state ownership identity and un-paralleled status in such a pillar industry, China Life enjoys close relationships with a number of state owned banks. Although the Company has not announced any intention to take control of a bank, it has benefited from higher return than normal insurance underwritings by the cooperation with the banks, such as taking strategic stakes and negotiating distribution agreements. As the Company has emerged as the likely cornerstone investor for Agricultural Bank of China's (ABC) IPO, such a distribution tie-up with the bank is expected to extend its reach into the rural regions with huge potential.

Table 1 suggests a significant improvement of the insurer's financial performance, with regards to the growth rate of its revenue and premium earned, most notably between 2003 and 2007, before the ongoing financial turmoil. During last fiscal year, the Company's total reported revenue has reached RMB327, 035.9 million, almost doubled against that of last fiscal year. Although such a dramatic change is mainly attributable to the change in the Company's accounting policy and the revenue recognition principles from the past Hong Kong Financial Reporting System (HKFRS), the readjusted numbers of revenue and premium earned during 2008 fiscal year still indicate a steady growth rate of 13% and 3.7% year-on-year respectively, according the newly adopted International Financial Reporting Standard (IFRS).

Table 1: Financial and Efficiency Indicators for China Life Insurance, in million RMB

	2003	2004	2005	2006	2007	2008	2009
Revenues	78,643.0	77,924.0	90,215.0	119,474.0	165,043.0	163,612.0*	327,035.9
Premium Earned	67,216.0	65,008.0	80,038.0	98,847.0	111,404.0	134,650.0*	275,076.9
Long Term Insurance Reserves	44,291.0	35,202.0	39,510.0	17,811.0	29,470.0	2,736.0*	15,024.0
Net Profit	-1,428.0	7,171.0	9,306.0	19,956.0	38,879.0	21,277.0*	32,881.0
Net Profit Margin %	-1.8	9.2	10.3	16.7	23.6	13.0	10.1
Return on Equity %	NA	10.7	12.4	19.4	27.1	12.8	18.6
Operating Cash Flow/Revenues %	49.0	42.2	57.8	59.8	55.5	49.1	55.2
Total Liability / Total Capital and Short Term Liability %	9.3	0	5.5	5.5	0.1	6.9	13.6
Profit per Employee, in 1000 RMB	-21.4	NA	NA	258.1	402.1	208.1	314.5

Source: DataStream and China Life Annual Reports for Fiscal Years of 2003-2009

As the largest insurance company in the world in terms of market capitalization, while the total assets has reached RMB1, 226, 257 million, up by 24.2% from 2008, the net profit attributable to shareholders and the earning per share (basic and dilute) of the Company was RMB32, 881 million, both up by 71.8% on a year-on-year basis, suggesting a rather satisfying investment return for public investors. At the same time, while the insurer has expanded its workforce significantly (as a result of the Company's further diversification from bancassurance into the agency channel through agent channel growth), an overall improvement in profit per employee indicates that China Life has been successful in streamlining its administrational structure and increasing the operational efficiency.

Although the Company has managed to maintain a steady growth of its revenue, its once sizable profit margin, like most of the financial institutions in the world, has been brought down due to the turmoil of financial crisis. In addition, its once proud market share in the domestic life insurance sector continued falling. Statistics show that the share reached 36.2% as at the end of December 2009, compared to 40.56 percent, 38.6 percent and 37.39 percent in each of the first three quarters of the same year and 40.3 percent a year ago. For one thing, the decreasing market share has been seen as a natural result of the intensifying competition in domestic insurance industry; for another according to the Chairman's Statement in 2009 Annual Report, the shrinking market is attributable to the listed company's shifted emphasis onto the profitability and soundness of the business mix, rather than the sales volume as they historically used to. As many of the low-margin insurance product has been eliminated from the Company's business mix, the business restructuring scheme, inevitably leads to its market share continued to decline.

In the light of a series impairment loss on several SOEs' overseas investment, the Company has maintained a rather prudential investment strategy, with its special focus on the domestic equity market. According to its 2009 Annual report, over the 2009 fiscal year, China Life has achieved a total investment of RMB38.9 billion revenue, of which changes in fair value gains, in contrast to the loss of RMB7.2 billion the year before, equals to RMB1.5 billion. Thus a substantial increase in the total investment income becomes an important reason for the increase in its profit. In response to the recovery of regional equity market, the Company reduced its scale of investment in bonds and increased the proportion of equity investments, which helped the listed company achieve satisfactory investment results. While the gross investment yield has been raised up to 5.8% from 2008's 3.4%, the proportion of equity-based investment by the end of last year, mainly common stocks, has increased to 15.8% from 8.3% in 2008 due to the recovery of domestic stock market. Debt-based investment, which mainly consists of bonds and policy loans, accounted for the proportion of investment assets by the end of 2009 to 52.5%, down from the peak of 64.7% in 2008. In addition, a series of the Company's investment projects, including the successful bid for China Construction Bank H-Shares sold by Bank of America's seasonal offerings, financial investments in Sino-Ocean Land Holdings Limited and the Bank of Hangzhou, suggest a transformation of the Company's prudent investment strategy towards a rather proactive one.

Table 2: Investment Performance of China Life, in million RMB

	2003	2004	2005	2006	2007	2008	2009
Total Investment	222,630.0	343,393.8	460,951.8	636,590.8	824,891.9	903,317.8	1,135,948.0
Bonds	70,604.0	150,234.0	255,554.0	357,898.0	443,180.8	575,884.8	582,314.8
Common Stock	10,718.0	17,271.0	39,548.0	95,493.0	195,147.0	75,082.0	179,416.0
Policy Loans	116	391	981	2371	5944	8676	13831
Investment Yield %	3.4	3.5	3.8	8	10.2	3.4	5.8
Solvency Ratio %	395.0	315.0	273.0	350.0	525.0	310.0	304.0

Source: DataStream and China Life Annual Reports for Fiscal Years of 2003-2009

Another remarkable improvement in its financial performance is its well-controlled risk-level, which has been reflected by a greater level of information disclosure. This makes it possible for the regulatory bodies and public investors, including potential share buyers, to make meaningful comparisons between China Life and its competitors. One such area that proved particularly contentious for the listed company is its solvency situation.

While the cases of several financial giants' bankruptcy have underscored the importance of risk control, a press report in 2009 stated that twelve of Chinese domestic insurers have been experiencing difficulty in maintaining solvent. Other than the global equity market downturn, the key underlying reasons for this instability are overly aggressive business expansion, underdeveloped self-governance, and lack of sophisticated risk management expertise. According to the 2008 updated "Solvency Regulations of Insurance Companies", CIRC will closely monitor those insurance companies with solvency ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends. Insurance companies with solvency ratio between 100% and 150% would be required to submit and implement plans preventing capital from being inadequate. And Insurance companies with solvency ratio above 100% but significant solvency risk noticed would be required to take necessary rectification action. As a measure of capital adequacy, the solvency ratios (calculated by dividing the actual capital of a insurer by the minimum capital required to meet by CIRC) over the past 6 years have been displayed in the last row of Table 2, suggesting China Life's capital adequacy has been maintained at a rather sound level. Thanks to the change of its business structure, minimum capital required by CIRC has been raised from RMB40, 154 billion to RMB48, 459 billion. Therefore, although the Company's actual capital has witnessed a steady increase up to RMB147, 119 billion, it is not surprising to see a slight decline in its solvency ratio, which is simply due to expanded divisor. In order to further enhance the Company's supervision, evaluation and management of major risks, the Company has established and implemented the "Risk Alert System" and "Hierarchy Management Rules". These measures, carried out by been six regional audit centers (including Beijing), have further optimize the off-site auditing and special-purpose auditing on the Company's key operation and management issues such as the execution capabilities and internal control rectifications.

8. Conclusion

The stakes for life insurance companies in such a fast growing industry are high, since one of the key ingredients for success in China's life insurance market going forward will be the access to capital in at a reasonable price, to allow their expansions of their operations as the market grows. Although the industrial regulator, CIRC, continues to protect the solvency of the industry as a whole by setting relatively low maximum pricing interest rate, coupled with a gradual liberalization of the pricing regulations, the reliance on investment returns is becoming especially acute. In this case, a life insurance company will have an almost insatiable appetite for capital. Although going to the stock market through public listings provide a ready source of capital and easy sources of capital in the future, it does come with its “price”.

On one hand, given the current strategy of funding the growth by public listing, the newly listed Chinese insurance companies will have to give greater focus on the quality of information produced, as public investors will look for reassurance on the quality and performance of their management. In addition, analysts who follow these companies and provide potential investors with advice on by-hold-sell strategies will require more detailed information and confidence in that information and its timely delivery, if they are to give the investment community the kind of advice that a life insurer will look for to support its share prices.

On the other hand, although the listed company is required to fully disclose the basis for pricing for related party transactions, there is a general perception that the related party transactions between the listed SOEs and its shareholding groups these kind of potentially self-dealing transactions can provide direct opportunities for the controlling shareholders to benefit or extract resources from listed companies under their control (Djankov, La Porta, Lopez-di-Silanes, and Shleifer, 2007).

In the case of China Life, an expropriation is highly likely when the shareholding group runs into the capital shortage, and therefore fail to satisfy the payment of benefits and claims obligations arising from the those non-transferred policies. The opacity and complexity of carved-out assets, restructuring scheme and interactions between shareholding agency and listed company have proven to be especially toxic to the listed company's stock performance when combined with high levels of market upheaval.

The case of China Life illustrates how joining the "self-regulatory" clubs of stock exchanges in advanced capital markets works to promote the convergence to the international standards of governance, where simply replicating the governance structure or operating in a highly competitive and well-regulated insurance market alone has proved to be insufficient. As some internal disciplinary mechanisms have been established for sustaining the new dynamics brought about by the IPOs, the Company is under the pressure to impose stricter disciplines on itself in order to re-convince public investors that it has departed from the poor governance practices associated with China financial sector in the past. In times of crisis, stakeholders' thirst for instantaneous, comprehensive, transparent information increases exponentially. An effective risk control mechanism and a high level of information disclosure therefore assume a critical role as severe industrial crises can prompt customers and investors to lose trust even in these “national champions” who managed to escape relatively unscathed from the general turmoil.

The credit crisis has demonstrated that even most venerable and reputable institutions can find themselves on the brink of demise within a few days or even hours. Within his “comparatively mild assessment” over the impact of financial crisis to the world insurance industry, Schanz (2008) argues that:

Policyholders’, investors’, and employees’ trust in this sector has been dented, and the fact that other financial service players have suffered at an even larger scale is a cold comfort, at best. These losses in reputation and trust represent an extraordinary threat to an industry which basically sells contingent promises to pay and is, therefore, based on credit of trust and reputation awarded by relevant stakeholders.

The credit crisis has demonstrated that even most venerable and reputable institutions can find themselves on the brink of demise within a few days or even hours. This is simply because part of the bonus system which has been based on short-term profit with asymmetric pay-offs, will allow key staff ranging from sales agents, branch managers, through to board members rewarded on the basis of taking a share of short-term profit, rather than risk and loss (The Geneva Association's ACCE Working Group on the Credit Crisis, 2008). Therefore, beyond complying with various regulatory requirements, the Company has devoted significant efforts in improving its internal control structure and workflow. This ensures that each business branch has in place and applies sound and prudent policies and appropriate procedures and controls in order to prudently manage and control the significant business risks to which the Company is exposed.

The other lesson from China Life' case is the need for massive improvement in meaningful and understandable transparency. The complexity and opacity of certain insurance products had grown to such propositions that even senior finance executives may fail to keep pace with these development, let alone ordinary investors or the public at large. Against this backdrop, China Life has adopted a more balanced messaging approach which incorporates the financial and non-financial, as well as profit generating and risk controlling aspects of its business operation. Striking a balance between financial and operating performance in the Company's information disclosure is more likely to generate maximum benefit in terms of quality and effectiveness of stakeholder communication (Schanz, 2008).

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