Press Release

SVS
SUPERINTENDENCIA VALORES Y SEGUROS

<u>Application of the second capital market reform:</u>

New SVS rule expands credit activity in the insurance market

- *Currently, insurance companies are authorized to grant credits to individuals for profit or as a supplement to their main business activities, however, these assets are not valid as backing for technical reserves and risk equity.*
- *The passing of the Second Capital Market reform (MK2) determined that insurance companies may back up technical reserves and risk equity with loans granted to individuals and companies, which has been retracted in the new regulation.*
- *This implies that the insurance market as a whole could lend up to 510 million dollars.*
- *When insurance companies grant loans to their pensioners for life annuities, the minimum installments or payments that the pensioner must pay may not exceed 25% of his net pension.*

The Superintendencia de Valores y Seguros (SVS) has enacted the regulation required for cash loans granted to individuals or companies to be considered as valid investments for backing technical reserves and risk equity.

This rule will become effective as of March 1, 2008, without prejudice to the voluntary application that may be done by insurance companies, and which must be informed to the SVS.

These loans must include titles that have executive value and may not be granted to family members or persons associated with the insurance company. The law establishes that each insurance company may underwrite loans for an amount equivalent to a percentage of its reserves and equity, which will be set by the SVS within the range of 1% and 5%.

Regarding the amount of the individual loans, each one may not exceed the lowest value between 10,000 UF (approximately $192 million pesos) and 5% of total loans that the insurance company is authorized to grant.

The most relevant aspects of the rule are the following:

- It establishes a maximum limit of 2% to back up technical reserves and risk equity with loans. This implies that the insurance company as a whole could lend up to 510 million dollars. The rules also establishes that companies may make a request to the SVS for the extension of this limit up to 5% of equity and reserves, which will be authorized once the insurance company has the adequate policies and procedures for controlling risks associated with the granting of loans.

- By granting loans, insurance companies comply with the legal regulations established for cash loan operations regarding the maximum conventional rate, collection fees and pre-payment conditions. Additionally, the rule establishes requirements for on information provided to the general public, loan applicants and also the SVS.

- When the insurance companies grant loans to their pensioners for life annuities of D.L. Nº 3,500 (Pension Fund Administrator- AFP -System), the minimum installments or payments that the pensioner must pay may not exceed 25% of his net pension (pension less the health insurance quote less salary tax). This measurement attempts to safeguard the provisional character of life annuities and establish a reasonable limit to credit risk.

- Finally, it institutes a system of provisions for noncollectable loans based on payment default, corrected by additional risk factors such as payment history of the client in the general financial system, renegotiations and cancellations. The system of provisions instituted may be replaced in the future by internal models for estimating expected loss from the credits.

Additionally, insurance companies that cover credit risk may grant loans to their policyholders for up to 80% of the amount insured. With these loans, credit insurance companies may cover up to 20% of their investment obligation in order to cover technical reserves and risk equity.

You can access more detailed information via the following link
http://www.svs.cl/normativa/ncg_208_2007.pdf

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