Nan Shan deal: Too much at stake

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The government’s regulatory agencies last week lashed out at a Hong Kong consortium’s plan to sell 30 percent of its stake in Nan Shan Life Insurance Co to Chinatrust Financial Holding Co. However, the Nan Shan deal has also put the regulatory agencies’ credibility to the test, with the public watching closely if they will approve the deal eventually.

On Tuesday, Hong Kong-listed China Strategic Holdings Ltd — which, along with private equity fund Primus Financial Holdings Ltd, had purchased a 97.57 percent stake in Nan Shan last month from American International Group Inc (AIG) for approximately US$2.15 billion — announced unexpectedly that it planned to sell 30 percent of the Nan Shan shares to Chinatrust Financial for US$660 million.

In exchange, Chinatrust Financial would sell 9.95 percent of its shares to China Strategic for NT$20.79 billion (US$643 million) via a private placement. Chinatrust Financial said it also reserved the right to increase its shareholding in Nan Shan within three years.

This new deal between China Strategic and Chinatrust Financial has pretty much blown a hole in the commitment the Hong Kong consortium made earlier to the Financial Supervisory Commission, in which it said that, once it wins regulatory approval for its deal with AIG, it would maintain a long-term stake and run the company for a minimum of seven years.

But what has actually raised people’s eyebrows is the identity of the people — or the power — behind the Hong Kong consortium — especially China Strategic.

On Nov. 10, China Strategic, a battery manufacturing and securities investment company, appointed former Hong Kong commerce secretary Frederick Ma (□□□) as chairman and former Hang Seng Bank chief executive Raymond Or (□□□) as its chief executive officer. Its shareholding structure is also a mystery, raising concern in Taiwan that it might include Chinese nationals. Taiwanese regulations still prohibit Chinese investment in the local financial sector.

Given these concerns, the Investment Commission last Friday demanded that the company submit more documentation about its shareholding structure and the nationalities of shareholders before entering into a formal review of the Nan Shan deal.

The deal has raised a number of questions. Why is China Strategic planning to sell part of its Nan Shan holding to Chinatrust Financial even before it has received regulatory approval to buy AIG’s stake in Nan Shan? Is it simply a tactic to gain regulatory approval by partnering with a major financial conglomerate in Taiwan?

As for AIG, how does it view this deal with the consortium? Has China Strategic broken AIG’s bidding rules by agreeing to sell a stake in Nan Shan to Chinatrust Financial?

When the Hong Kong consortium outbid Chinatrust Financial last month to acquire AIG’s Nan Shan shares, AIG said the winning bidder was chosen because it presented the greatest long-term stability and potential to Nan Shan. Will AIG now agree to the consortium teaming up with Chinatrust Financial after initially rejecting Chinatrust?

This conundrum has raised suspicions whether the government is under pressure to approve the Hong Kong consortium's deal with AIG, which is nearly 80 percent owned by the US government. The ownership transfer of Nan Shan has great implications for its 4 million policyholders, approximately 4,000 employees and more than 34,000 agents in Taiwan. There is too much at stake for the regulatory agencies to take this issue lightly.

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