# Supervision of the Chinese government for insurance companies buying into listed companies


## Abstract

As the new rules about investment of insurance funds[I], the blue chips of high divided yield to be the object of active investment in insurance funds. As the time mismatches of investment projects and the sources of funds, the risks of interest due to spread loss become increasing. At the same time, the insurance company and the major shareholders of the equity dispute led to the listing of the company's business risk and other issues. This paper proposed several advices. As for insurance companies, insurance industry should build stress-testing mechanism of dynamic balance of assets and liabilities, and establish the reasonable matching model of investment and cost-benefit. The development of insurance companies and the listed companies should make an alliance and form a joint venture. As for regulatory system, China Insurance Regulation Commission should limit the scope of universal insurance, adjust the investment of stocks, increase the minimum capital of requirements of stocks investment, and stress the information announcement. The regulation institutes should raise more cooperation, and bring into correspondence with each other.



**KEYWORDS:** insurance capital into the market listing quoted company matching of assets and liabilities


[I] Notice on raising the proportion of insurance funds invested in blue chips stocks and the proportion of shares under supervision. China Insurance Regulatory Commission.

In 2016, China's economic growed slowly down. With the impact of rising interest rates fell, the investment pressure on insurance funds increased. On July 8th, 2015, the China Insurance Regulatory Commission issued "Notice on raising the proportion of insurance funds invested in blue chips stocks and the proportion of shares under supervision" to relax the supervision ratio of the insurance funds investing in blue-chip stock. For eligible insurance companies, the proportion of investment in a single blue chip stock adjusted from 5% of the total assets in the end of the quarter to 10%. Investment equity class assets to reach the upper limit of 30%, can be further holdings of bule-chip stocks, holdings of equity assets after the balance of assets should not be higher than the 40% of the total assets at the end of the year. Then, There is a modest increase in insurance funds to invest in blue-chip stock recognition ratio of assets. Thus, the regulatiory authorities support the investment in blue-chip insurance market. However, in the actual operation, due to the large amount of money, the operation caused by the high degree of concern, the insurance funds in the current stock market with larger violatilit, insurance funds investing in blue chips face a greater risk.

## I. The Status Quo of Listing of Insurance Funds

In 2015, the investment of Chinese insurance companies has reached 117.95 billion yuan, up 19.81% over the beginning. Of which bonds investment reached 384.45billion yuan, accounting for 34.39%. Stocks and securities investment funds reached 169.69 billion yuan, accounting for 15.18%. Other investment funds reached 321.30 billion yuan, accounting for 28.65%.

By the end of 2015, the total assets of insurance industry reached 12.36 trillion yuan, an increase of 21.66% compared to early 2015. The total asset of property insurance companies is 1.85 trillion yuan, an increase of 31.43% compared with the beginning. The total asset of life insurance companies is 9.93 trillion yuan, an increase of 20.41% compared with the beginning. Then, the total asset of re-insurance companies is 518.74 billion yuan, an increase of 47.64%

over the beginning of 2015. The total asset of asset management companies is 35.24 billion yuan, an increase of 46.44% over the beginning of 2015. The annuity management assets of endowment insurance companies amounted to 416.88 billion yuan, investment management assets amounted to 353.551 billion yuan.[II]

Compared with previous years, insurance fund investing in stocks and securities investment funds is expanding in the year after year. Since the 18th CPC National Congress, China Insurance Regulatory Commission has vigorously promoted the market-oriented reform of insurance funds, broadened the field of investment in insurance funds, reduced investment restrictions on insurance funds, changed the way of supervision, and strengthened the supervision of the matter. At present, the effectiveness of these initiatives is obvious, insurance investment income rose from 3.39% to about 7.5% in 2015, the industry profitability greatly enhanced.

At present, the reform of China's economy is in the supply side, innovation-driven development to achieve economic quality and efficiency of the development stage. The yield of major industries has declined, and there is a poor channel allocation of assets. As the capital market is the only market to accommodate large amounts of money, while low-cost blue chips have a very high dividend rate, which attracts the insurance companies greatly. Therefore, through the asset management plan, partial stock funds, hybrid funds, secondary bond funds, quantitative hedge funds and other channels, the insurance funds list into the captial market. Buying listed companies can not only improve the company's investment rate of return, but also increase the company's net capital accounting ratio.

Table1 By the end of 2015, the equity ratio of insurance funds placards listed companies more than 10% of the company's profile in China

| Insurance company | Listed company | Circulation market share | industry classification（by CSRC） |
|---|---|---|---|
| Ping An Insurance （Group） Company of China, LTD. | Ping An Bank | 42.16% | Monetary and Financial Services |

[II] "Insurance Statistics Report in 2015". ICRC.

| | | | |
|---|---|---|---|
| Ping An Life Insurance Company of China - Ordinary insurance products | China Construction Bank（CCB） | 19.92% | Monetary and Financial Services |
| Huaxia Life Insurance Co. Ltd -Universal Insurance Products | Sinoer（ Men’s Clothing） | 18.75% | Textile and Garment, Apparel Industry |
| Sino Life Co., Ltd. - Universal insurance | Gemdale Group | 26.16% | Real Estate |
| | Agricultural products | 18.22% | Business Services |
| Qianhai Life Insurance Co., Ltd. – Haley Life Insurance（Universal） | Vanke A | 23.52% | Real Estate |
| | Shao Neng Shares | 16.31% | Electricity, Heat Industry |
| Ju Shenghua Industrial Development Co., Ltd. | Highlights of the torch | 15.33% | Food Manufacturing Industry |
| | CSG A | 14.74% | Non - Metallic Mineral Products Industry |
| ABIC Life Insurance Company Inc. - Robust Portfolio | Gemdale Group | 14.07% | Real Estate |
| Sino Life Co., Ltd. - Dividend insurance | Agricultural products | 13.41% | Business Services |
| Hexie Health Insurance Co., Ltd. - Universal Products | Financial Street | 13.33% | Real Estate |
| ABIC Life Insurance Company Inc. - Traditional insurance products | China Merchants Bank | 13.11% | Monetary and Financial Services |
| Huaxia Life Insurance Co. Ltd -Universal Insurance Products | Tongzhou Electronics | 12.25% | Computer Industry |
| Guohua Life Insurance Co., Ltd. - Universal No. 3 | Research and development of new materials | 10.22% | Non - Ferrous Metal Smelting Industry |

Source: Wind Database （Student Edition）（data as of December 31, 2015）

As shown in Table 1, by the end of 2015, Ping An Insurance （Group） Company of China placards Ping An Bank, equity accounted for 42.16%. Sino Life placards the Gemdale Group, equity accounted for 26.16%. Qianhai life Insurance company and Ju Shenghua Industrial Development Company（which are associated company） placards Vanke A, equity accounted for 23.52% （Qianhai life Insurance Company placards 6.66% stake in Vanke A, Ju Shenghua Industrial Development Companies placards 16.86% stake in Vanke A） and so on.

Table2 The first three quarters in 2016, insurance companies holding more than 3% of the listed companies

| Code | Listed Companied | Insurance | Shareholding |
|---|---|---|---|
| 600697 | Eurasian Group | ABIC Insurance | 4.99 |
| 601166 | Industrial Bank | PICC's Property | 4.98 |
| 600868 | MeiYan Auspicious | Evergrande Life | 4.95 |
| 000417 | Hefei Department Store | Qianhai Life | 4.75 |
| 600016 | Minsheng Bank | ABIC Property | 4.56 |
| 600000 | SPD BANK | Sino Life Insurance | 4.52 |
| 600383 | Gemdale Group | Sino Life Insurance | 4.39 |
| 601555 | Soochow Securities | China Life | 4.33 |
| 000783 | Changjiang Securities | Guohua Life | 4.28 |
| 002202 | Goldwind Technology | Hexie Health | 4.14 |
| 601318 | Pingan Group | Huaxia Life | 4 |
| 000012 | CSG A | Qianhai Life | 3.92 |
| 600330 | Tiantong Shares | Guohua Life | 3.81 |
| 600360 | China Microelectronics | June Life Insurance | 3.7 |
| 000566 | Hainan Pharmaceutical | June Life Insurance | 3.61 |
| 600872 | Highlights of the torch | Qianhai Life | 3.57 |
| 600712 | Nanning Department Store | Qianhai Life | 3.46 |
| 600587 | Xinhua Medical | China Life | 3.46 |
| 002168 | Shenzhen Hui Cheng | Tianan Property | 3.4 |
| 600694 | Dashang Group | ABIC Endowment | 3.26 |

| | | | |
|---|---|---|---|
| 600969 | Chen Electric International | China Life | 3.24 |
| 002469 | Three-Dimension Engineering | Tianan Property | 3.21 |
| 000002 | Vanke A | Qianhai Life | 3.17 |
| 002443 | Jinzhou Pipeline | Hengda Life | 3.13 |
| 600505 | Xichang Power | Qianhai Life | 3.11 |

In statistics, the listed industries distributied in the financial, real estate, textile and garment, retail department stores, health care and other fields. These industries have the following characteristics. First, high ROE, low PE (price-earnings ratio); Second, the dividend yield is high, the stock has not been significantly higher evavluated. Highway, power and other plates were placard lesser currently, and may become the focus of attention afterward. Third, the shares are relatively decentralized, and the insurance companies have easily access to the board of directors of listed companies. Fourth, cash flow is abundant. At the same time, these industries are also domestic demanded and rigid demanded industry, with the high future growth expectations, which support the stock price slowly strengthened. These are the characteristics of long-term investment.

The importance of investment behavior to insurance companies is increasingly apparent. In 2015, China Life Insurance, China Ping An, China Pacific Insurance and Xinhua Insurance produce huge assets impairments due to stock investment, these companies booked 67.2 billion totally, a serious drag on the company's profit level. Then the first half year of 2016, the four companies made a substantial increase in net profit due to investment income level improved.

In the view of the importance of investment behavior, insurance companies and industry regulators are highly concerned about the investment behavior of insurance companies. Compared with the strong demand of the practice session and the supervisor, the investment behavior of the insurance company has not attracted the attention of academic research. Existing research mixed the insurance companies and other institutional investors together, or only concerned about the fund investors. Theoretically, the difference between the sources of the funds and the characteristics of business operation will lead to the different investment behavior between insurance companies and fund investors. However, it is impossible to determine whether the characteristics of investment behavior of insurance companies are different from other institutional investors. To a certain extent, the diiference also affects the regulatory efficiency.

From the practical point of view, the conclusions of this paper will help the insurance institutions to determine a reasonable regulatory policy orientation. From the perspective of the evolution of the regulatory system, the investment in insurance companies has grown from low risk investment to high-risk investment. The scope of investment was initially limited to bank deposits and government bonds, and then gradually extended to bonds, stocks and real estate. In the process of gradual liberalization of the investment sector, the choices of investment channels continue to increase, while insurance companies are also increasing investment risk. As one of the last liberal areas of investment, stocks widen existing investment channels and increase the potential risk of insurers' investments. Regulators need to pay close attention to the insurance company's stock investment behavior changes, even if the adjustment of regulatory policy orientation to ensure the healthy development of the industry. If the insurance company's stock investment behavior is too radical, showing a risk lover, then the future regulatory policy will be appropriate tightening. In the other hand, it shows that the existing regulatory measures are more reasonable, should be maintained, or even further relaxed.

## II. Risk Analysis of Listed Companies with Insurance Funds

(A) Allocate blue chips of high dividend rate and maintain solvency regulatory requirements.

In July 2015, the CIRC promulgated “Notice on raising the proportion of insurance funds invested in blue chips stocks and the proportion of shares under supervision”. Insurance companies to invest in a single blue chip stock, whose solvency rate at the end of the last quarter should not less than 120%. After the record, the balance of investment in a single blue chip stocks accounts for the total assets of the end of the quarter from 5% to 10%. Investment equity assets accounting for the balance of the total asset of the end of last quarter reached 30% can further hold blue-chip stocks. After the holdings, the equity asset is not higher than 40% of total assets at the end of last quarter.

“Notice of China Insurace Regulatory Commission on regulating the equity investment business of Insurance Institutions” provides that the insurance companies, whose solvency adequant rate of 150% or more, can improve the normal stock investment. The insurance companies, whose solvency adequant rate between 100% and 150% for four consecutive quarters, should adjust the stock investment strategy. The insurance companies, whose solvency adequant ratio less than 100% for two consecutive quarters, shall not increase the stock investment. It is reported that in 2015, the solvency adequant rate of Qianhai Life is about 320%. Therefore, its investment to Vanke stock in line with the solvency regulatory requirements of CIRC.

When the insurance company placards listed companies more than 20% of the proportion of shares, the insurance company can be reflected the investment in the "long-term equity investment", replacing the fair value measurement originally with equity method. In other words, the increase in stock holdings into the equity method of the current period, the stock rose more, the insurance company get more the one-time investment income. For example, in the annual report of ABIC Insurance in 2014, under the company's investment income, the current value of the fair value measurement to equity method reached 18.4 billion yuan, accounting for 81% of the total investment income of 22.6 billion.

At the same time, under the C-ROSS（China Risk Oriented Solvency System） rule, good assets and bad assets will have a very significant impact on the insurance company's solvency adequacy ratio. Therefore, for the insurance company, the long-term allocation of capital markets is very important, which can not only improve the asset investment structure, improve asset investment income, but also can greatly save capital and improve capital solvency.

(B) Insurance funds’ duration dismatchs the investment projects’ duration.

Table3 In2005-2015, the usage of China 's insurance funds

| Year | The average rate of return on insurance funds | Stocks and funds accounted for the proportion of the use of funds balance | Bank deposits and bonds as a percentage of the balance of funds used |
|---|---|---|---|
| 2005 | 3.60% | 5% | 89.43% |
| 2006 | 5.80% | 8.73% | 78.54% |
| 2007 | 12% | 27.12% | 68.37% |
| 2008 | 1.91% | 12.70% | 84.28% |
| 2009 | 5.91% | 18.59% | 79.07% |
| 2010 | 4.84% | 21.79% | 80.06% |
| 2011 | 3.60% | 12.11% | 79.06% |
| 2012 | 3.39% | 19.33% | 78.80% |
| 2013 | 5.04% | 15.81% | 72.87% |
| 2014 | 6.30% | 5.21% | 65.48% |
| 2015 | 7.56% | 4.35% | 58.76% |

Source: 2005 - 2013 Data from the 2006-2014 Insurance Yearbook, 2014-2015 Data from Wind Database (Student Edition).

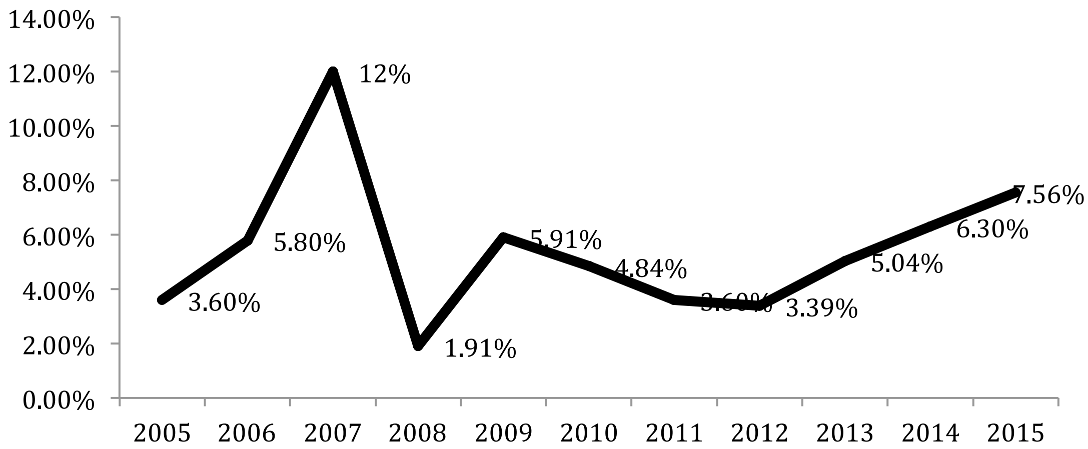


Figure 1 2005-2015 the average rate of return of insurance funds usage

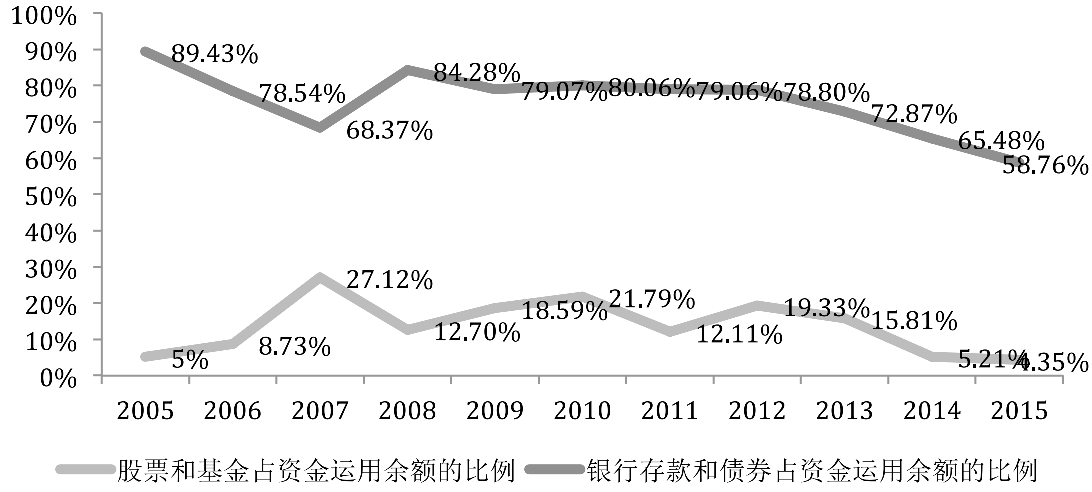


Figure 2 2005 - 2015 the proportion of various types of investment accounted for the use of funds balance

Figure 1 is the average rate of return of the usage of insurance funds in China, Figure 2 is the various types of investment accounted for the proportion of the usage of insurance funds balance in China. As can be seen from Figure 2, the proportion of fixed-income part of the usage of funds showed a downward trend year by year, while stocks and funds accounted for the proportion of the balance of funds is relatively stable. In 2015, under the impact of the decline in the capital market, the ratio has declined, the average rate of the usage of insurance funds' growth rate declined down. In the context of slowing economic growth and falling interest rates, it is hard that the insurance company's asset-side gains cover the cost of debt-side costs. In an effective asset allocation channel, in order to pursue higher returns, insurers must increase the allocation of high-yield equity assets. The high cost pressures of current dividend insurance are a major cause of insurance funds investing in risky assets. Insurance companies' cost are concentrated in traditional insurance, dividend insurance, investment linked insurance and universal insurance. From the term point of view, the traditional term is mostly 10-20 years, the dividend period is about 5 - 10 years. In the case of fixed premiums, when there is downgrade and decreasing interest rates causing the market interest rate down, these products will put the pressure of return on investment. And the current domestic investment period over the duration of the insurance product may only be 30-year bonds, which have less circulation. Therefore, resulting in the allocation of insurance funds can not be completed during the formation of insurance funds mismatch pattern, the insurance company can only get high returns through investment risk assets.

(C) The costs of universal insurance products is too high, facing huge pressure on investment income.

Table 4 lists the costs of the ABIC Insurance's universal products. Among them, the annual settlement rate of ABIC Spirit No.1 life insurance (universal) C products is 6%, which is the highest among similar products. The costs of most universal insurance products are also more than 5%. According to the annual report of ABIC Life Insurance in 2015, the company's bank channels (the main channel) premium income is 54.8 billion yuan, bank insurance fee is 1.8 billion, then the channel rate is 3.3%. Assuming the product is 5 years, after flatting down, the annual channel fee is 0.66%. Referring to Table 2, it is estimated that the average cost of ABIC Insurance is 5%, plus 0.66% of the channel fee, plus 1% of the management fees and other costs, it can be estimated that the cost of ABIC is 6.66%. In other words, regardless of compensation and other factors, ABIC Life's investment rate of return should be more than 6.66% in order to maintain cash flow. The case of ABIC Life Ins. is also the problems that universal insurance-based companies facing in recent years.

Table4 the cost of universal insurance product in ABIC insurance situation

| Universal insurance products | Account | Annual settlement rate |
|---|---|---|
| ABIC Spirit No.1 life insurance (universal) | Universal account | ≈5% |
| ABIC Spirit No.1 life insurance (universal) B models | Universal account | ≈4.6% |
| ABIC Spirit No.1 life insurance (universal) C models | Universal account | ≈6% |
| ABIC Spirit No.2 life insurance (universal) | Universal account | ≈5.1% |

| | | |
|---|---|---|
| ABIC Spirit No.3 life insurance (universal)（Effective before October 21，2016） | Universal account | ≈5.2% |
| ABIC Spirit No.3 life insurance (universal)（Effective after October 21，2016） | Universal account | ≈4.5% |
| ABIC Spirit No.5 life insurance (universal) | Universal account | ≈5.5% |
| ABIC Spirit No.9 life insurance (universal) | Universal account | ≈5.2% |
| ABIC life No Worry life insurance (universal) | Universal account | ≈5% |
| ABIC Yu Fu Man Tong 2 life insurance (universal) | Universal account | ≈5% |
| ABIC Won the Life group annuity insurance | Personal account - personal payment | ≈5% |
| | Personal account - unit payment | ≈5% |
| | Group account | ≈5% |

Source: Wind Database (Student Edition) (data as of October 2015).

In the context of interest rates marketization, insurance products，which has been saled, can no longer get such a high return on earnings in the current fixed income market to meet the 6.66% rate of return requirements. To solve this problem, the past method is to buy fixed income products, such as bonds and bank deposits. Among them, the bank deposits are divided into two kinds, time deposits and agreement deposits. In the current market, funds are very abundant circumstances. Insurance companies can only negotiate with the bank to do time deposits. However, 5-year time deposit rate is 3% （the corresponding compound interest should be 2.8%），simply can not meet the 6.66% rate of return requirements, and in general, the bank deposits accounted for 40% of the proportion of insurance companies funds, so this 40% of the funds need to find alternative investment channels, and high dividends of the equity market is a choice naturally. However, in recent years, due to the market benchmark interest rates fell sharply, the allocation of fixed income assets of low-yield forced insurance funds to allocate the secondary market stocks to keep the cost bottom line of universal insurance, investment risk, dividend insurance, so that these products can be competitive in the market. At the same time, with the increasingly fierce competition in the insurance market, in order to increase investment income, a large number of low-income fixed income investment become the main leveraged funds of insurance funds allocation of risky assets. Insurance companies become the main force of a new round of financial markets, which causes the adverse effects in the future development.

(D) Insurance funds may face the impact of systemic risk of capital markets.

The volatility of the capital market is large currently, by the external market and the domestic economic downturn and the abnormal fluctuations in the exchange rate, the domestic basic market have several major declinaion in June 2015 to January 2016, and the market participants suffered the impact of systemic risk. According to statistics, there are 31 insurance funds placards in 2015, buying a total of 67.89 million shares, spending a total of 110.475 billion yuan. By the end of January 20, 2016, a total of nearly 30 billion yuan of insurance funds appear loss phenomenon, and the price fell below the cost price in 20 placards, including 9 insurance funds placards to estimate the loss phenomenon, and 6 placards estimated that the deficit rate exceeds 20%. From the view of loss rate, the Jun Kang Life Insurance Company buying into Donghua Technology has the largest loss. Announcement shows that Junkang Life Insurance Company bought into Donghua Technology with 2240.16 million shares in 2010. According to the public disclosure of the price range, it can be estimated that the investment involved a total of 563 million yuan, the investment cost of 25.25 yuan per share. Due to the current Donghua Technology's siingle share is 15.11 yuan, Jun Kang Life Insurance Company losses 39.92% currently. From the scale of lossing scale, Qianhai Life Insurance Company buying into CSG A and the Highlights of the Torch losses are in the forefront scale in 2014. It is estimated that the costs of Qianhai Life Insurance Company buying into the CSG A and the Highlights of the Torch were 12.90 yuan and 16.08 yuan in 2014, respectively, to buy shares of 238 million shares and 1.61 million shares. However, after the rapid declination in share prices in 2015, Qianhai Life Insurance Company's holdings on the CSG A and the Highlights of the Torch were 0.82 billion yuan and 666 million yuan, respectively, the loss ratio of 26.76% and 25.87%.

Table5 the performance of Qianhai Life Insurance Company raising the listed companies

| Listed Company | Buy Date | Buy Price Range(yuan) | Current share price(yuan) |
|---|---|---|---|
| Vanke A | 2015-6 | 14.74 | 24.45 |
| | 2015-7 | 13.28-15.47 | |
| | 2015-8 | 12.7-14.38 | |
| CSG A | 2015-5 | 15.02-16.66 | 9.25 |
| | 2015-7 | 11.00-12.25 | |
| | 2015-18 | 9.82-12.45 | |
| | 2015-10 | 9.29-9.85 | |
| Nanning Department Store | 2015-9 | 5.36-6.52 | 8.95 |
| | 2015-10 | 7.57-8.7 | |
| Star power | 2015-9 | 9.9-12.25 | 10.11 |
| Hefei Department Store | 2015-8 | 8.12-8.65 | 7.98 |
| | 2015-9 | 7.13-7.7 | |
| | 2015-10 | 9.61-10.46 | |
| Highlights of the Torch | 2015-4 | 15.1-21.73 | 11.37 |
| | 2015-9 | 12.8-15.5 | |
| OCT A | Non-public issuance | 10.33 | 6.80 |
| Shao Neng Shares | Non-public issuance | 6.81 | 8.01 |

As shown in Table 5, by the end of January 20, 2016, Qianhai Life Insurance Company placarding listed companies appeared a substantial loss at least in four stocks, namely CSG A, Hefei Department Store, OCT A and Highlights of the Torch. Of course, Qianhai Life Insurance Company and its affiliated enterprises expand the proportion of Vanke A. The Vanke A market prices fell sharply in the case of the suspension in 2016, and Vanke shares in Hong Kong fell sharply with 25%. In summary, under the impact of systemic risk of the capital market, many of the insurance companies buying into the listed companies are in a state of loss, and some insurance companies have a great loss proportion. These blind placards behavior hide greater dangers in the company's investment management of the payment arrangements.

(E) The dispute of insurance company and the major shareholder makes the business risk of listed companies increasing.

Insurance companies placarding listed companies, may lead to listed companies equity dispute, control transferred, management change and other issues, which will lead to the the business risk of listed companies increasing, causing insurance companies facing the main investment losses. For example, Shanghai Jiahua Financial’s investors dispute with the original management and the major shareholder and so on. In addition, there is expansion of the same industry expansion, such as Yonghui Supermarket placarding in Hundreds Groups, Yintai Department placarding E Wushang A competition for shares. There are internal shareholders dispution, such as Shanghai Xinmei, Tibet Pharmaceutical, Inner Mongolia Development and the East Silver Star and so on.

On the one hand, the equity dispute caused intangible loss to the enterprise, damaging its brand image, investor trust and others. On the other hand, the equity dispute makes the energy of the major shareholders and management dispersed, affecting the company's daily business, and even lead to the company involved in the reorganization or the miscarriage of major assets. In addition, the equity dispute may also directly or indirectly infringe the interests of small shareholders, especially in the information asymmetry, the interests of opaque circumstances, the lack of supervision of independent directors and board often occur, how to protect the interests of minority shareholders become a large problem. Therefore, most of the small investors still want to calm the dispute, to eliminate the uncertainty of the operational risks. For example, there are small and medium-sized shareholders of Tibetan medicine openly called to form a coalition, raising 10% of the shares held separately held an extraordinary general meeting, to end the equity struggle.

## III. Suggestions on Self - Risk Prevention Measures of Insurance Companies

(A) Establish the asset and liability duration matching model.

Equilibrium of asset and liability is the core principle of insurance funds. As a life and property for the business, insurance companies must put a long-term business as a basic business philosophy. Whether it is asset-side aggressive or debt-side aggressive, or imbalance of assets and liabilities, may lead to consequences. There are asset-driven companies, centralized holding companies, high-cost short-term debt companies and other new institutions in the current insurance industry. These institutions in the face of systemic credit risk, market risk, interest rate continuing downward risk, liquidity risk and other risks, not only lead to insurance companies own losses or bankruptcy, more seriously, may have a significant negative impact on the industry, increasing capital market volatility, resulting in damage to the public interest.

Therefore, it is very important to establish a stress test mechanism for dynamic matching of assets and liabilities. For example, for the following assumptions: the Shanghai Composite Index fell 20% or 30%, risk-free interest rate curve increased 50BP or 100BP, spreads 100BP or 150BP, long-term equity investment fell 10% or 20%, investment real estate prices fell 10% or 20%, 60% or 80% of the non-performing assets in the five-level classification of insurance assets can not recover the principal. The net cash flow ranges from postive to negative and the solvency ratio is below 100%, and the risk management measures and the implementation of contingency plans. The expected return of property insurance companies accounted for a total proportion of the total assets of the previous quarter. Life insurance companies with an average holding period of less than 5 years, and the company's assets in the allocation of equity, real estate Assets and other financial assets together accounted for more than 20% of the total assets at the end of the quarter. Life insurance companies in the general type, dividend type, universal insurance, and at least one major account of the asset yield is less than the cost of insurance products, etc. In these cases, insurance companies need to carry out stress tests, hold the risk of the bottom line.

(B) The insurance company and the listed company develop common goals.

Due to improper intervention in the leveraged management in the current capital market, there has been unprecedented volatility. Insurance companies placarding listed companies facing loss continuously. Insurance companies should try hard to avoid the secondary market volatility caused by the adverse effects after completing the placards, and avoid the insurance companies in various names of the pseudo "market value management”. ABIC Insurance Company, for example, completed placarding Minsheng Bank and Financial Streets in 2014, Jiujiang Minsheng Bank was listed as a joint venture, taking the equity method accounting. This means that the decision to ABIC Insurance placarding Minsheng Bank stock investment income, is no longer the secondary market price fluctuations, but Minsheng Bank's annual operating results. ABIC Insurance Company will be in accordance with the Minsheng Bank's shareholding ratio, to share the annual net profit and loss of Minsheng Bank.

At the same time, when holding shares of listed companies reached 20% of limitation, the insurance company can put the financial statement together with the listed companies. This will not only help the insurance company to expand its own assets, confirming the current income, but also to solve its solvency problems. For example, Sino Life Insurance Company placarding Shanghai Pudong Development Bank's motive is to combine the financial statement after achieving a 20% stake, and then complete the recognition of investment income to improve own solvency.

As the rights dispute and management right dispute of the listed company, the insurance company should take measures to deal with and coordinate the parties. Insurance companies should pay full attention to the interests of all parties and put forward the appropriate solution to the development of the listed company in order to achieve win-win as the starting point, in order to promote the company's steady development. As the problem that the major shareholders have no reason to interfere with the management of the listed companies, the insurance companies should actively organize and pay more attention to the disclosure of information, formulate the relevant risk response plan, and take legal means to end the holding as necessary.

## IV. Suggestions on Supervision of Insurance Company placards

(A) Restrict the universal insurance and other special types of insurance operations.

Some insurance companies sales short-term products, using insurance funds to invest high-risk property in the previous stage. CIRC should further strengthen the supervision of personal insurance and restrict the proportion of the quarterly scale premium income of short-term renewal product to the total premium income, and limit the business scope of the life insurance company that has just obtained the insurance license. [III]Some of the insurance companies use universal insurance to quickly absorb cashes, which is too risky, once these funds appearing to serve the issue, will cause a lot of problems. It is necessary to strengthen the regulation.

(B) Gradually adjust the proportion of equity investment in insurance funds and raise the minimum capital requirements for stock investment.

Insurance funds can bring great profits to the capital market, but the core is to comply with the principle of investment. At present, the risk of insurance funds buying into the capital market exists fast entry and exit behavior. CIRC should strengthen the approval or filing mechanism for the insurance premiums in the next step, and there will be more stringent supervision against the hostile takeovers and leveraged buyouts. The principle of capital acquisition is mainly financial investment, supplemented by equity investment.

By the end of 2015, small and medium-sized insurance companies become the representative of the insurance, which set off a wave of placards, an insurance company listed three companies a day. And in 2016, "Wanbao equity dispute" preluded, SFC, CIRC and other regulators maintain the comcerns of

[III] December 30, 2016. CIRC issued "Noticce on further strengthening the supervision of personal health matters related issues". According to the notice, CIRC will establish a classification system for life insurance business. Since 2017, life insurance company must monthly count and submitted in the product data with short duration insurance companies buying into the listed companies, and some companies use the asset restructuring after listed. Guoxin Securities published research report (1th Dec.) shows that there are 35 listed companies in the placard status. Placards are more common in foreign countries, but it is still a new thing in China, which should be introduced standard placards, and strictly control the insurance company's investment leverage.

(C) Strengthen coordination between regulators to limit shareholder behavior.

Insurance companies become the major shareholder of the listed companies and pariticipant in management. If there are some problems in the governance structure of listed companies, the insurnace companies and the listed companies will face greater risks. The insurance company should do the main business, which is insurance and security, not investment. CSG executives resigned in the previous time. Chen Lin, who is the manager of the Qianhai Life Insurance, was elected chairman of CSG in 21th November. It should not be athe insurance company’s ablility to manage a infamiliar company. Whether the insurance companies enter the management or not, SFC, CIRC and other regulators should jointly give the rules.

In developed countries, insurance company investment income has replaced the policy income as the company's main source of profit. With the deepening of financial system reform in China, the investment scope of insurance companies has also been extended to the stock market. Different from other institutional investors, subject to the nature of the funds sources and business operating characteristics, the risk of stock investors and liquidity for investors has a special preference. With the announcement of “New Century 10”, the development of isnurance industry is in the golden age in China. As the captial market environment maturing, the usage of insurance funds will be more efficient.

## References


[1] Arbel. A. S. Carvell, P. Strebel. Giraffes. Institutions and Neglected Firms [J]. Financial Analysts, 1983, 39(3):57-63.

[2]Badrinath. S. G., G. D. Gay, J. R. Kale. Patterns and the Impact of Dynamic Institutional Preferences [J]. Journal of Risk and Insurance, 1989, (56) :605-629.

[3]Bennett. J. A. Sias, R. W. Starks, L. T. Greener Pastures and the Impact of Dynamic Institutional Preferences [J]. Review of financial studies,2003,(16): 1203-1238.

[4]Del Guercio. D. The Distort Effect of the Prudent-man Laws on Institutional Equity Investment [J]. Journal of Financial Economics,1996,(40):31-62.

[5]Badrinath. S. G. Jayant, R. Kale and Harley E. Ryan. Characteristics of Common stock Holdings of Insurance Companies [J]. The Journal of Risk and Insurance,1996, (63):49-76.

[6]Falkenstein. Eric. G. Preferences for Stock Characteristics as Revealed by Mutual Fund Portfolio Holdings [J]. Journal of Finance, 1996,(51):11-135.

[7]Geisler. F. Equity security investments: Evidence on tax induced dividend clienteles [J]. Journal of American Taxation Association, 1999, 22(1): 1-17.

[8]Hendry. C. Woodward, S. Harvey-Cook, J. Gaved. M. Investors' Views of People Management[J]. Corporate Governance, 1999,22(1):1-17.

[9]Stoll. H. The Pricing of security Dealer Services: An empirical Study of NASDAQ Stocks [J]. Journal of Finance, 1978, (33):1153-1172.