Insurance & Reinsurance - China

CIRC eases restrictions on investment of insurance funds

Contributed by **AnJie Law Firm**

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The China Insurance Regulatory Commission (CIRC) has issued the Draft Notice on Strengthening and Improving Regulation of Proportional Use of Insurance Funds to insurers and insurance asset management companies for comment. The notice regulates the use of insurance funds by way of proportional limits over broad categories, rather than on specific products.

Previous regulations

Previously, Article 6 of the Interim Measures for the Administration of the Use of Insurance Funds limited the use of insurance funds to:

- bank deposits;
- purchase and sale of bonds, shares, securities investment fund shares and other negotiable securities;
- real estate investment; and
- other forms of fund use prescribed by the State Council.

At the same time, the CIRC Notice on Investment of Insurance Funds in Relevant Financial Products stipulated that insurance funds may be invested in seven kinds of financial product issued in accordance with Chinese laws and regulations:

- financial products of commercial banks;
- credit asset-backed securities of banking financial institutions;
- collective investment trust schemes run by trust companies;
- specific asset management plans of security companies; and
- investment plans in infrastructure or real estate and project asset-backing plans of insurance asset management companies.

New regulations

The new notice divides insurance assets into five primary categories:

- liquid assets;
- fixed-income assets;
- equity assets;
- real estate assets; and
- other financial assets (mainly comprising the seven kinds of financial product listed in the former regulations).

The new notice redefines the types of insurance fund that may be invested according to investment categories and clearly stipulates the types of insurance fund that may be invested in the main categories (instead of in specific products).

Restrictions on the proportion of the investment also apply to the investment categories, rather than to specific products. The notice has also adjusted the investment proportion restrictions on the products.

Article 16 of the Interim Measures for the Use of Insurance Funds stipulates that the use of insurance funds by an insurance group (holding) company or insurance company must meet the following proportional requirements:

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- The aggregate book balance of investments in assets such as demand deposits, government bonds, central bank notes, policy bank bonds and money market funds can be no less than 5% of the company's total assets at the end of the preceding quarter.
- The aggregate book balance of investments in unsecured enterprise (company) bonds and debt financing instruments of non-financial enterprises cannot exceed 20% of the company's total assets at the end of the preceding quarter.
- The aggregate book balance of investments in shares and equity funds cannot exceed 20% of the company's total assets at the end of the preceding quarter.
- The book balance of investments in equity of unlisted enterprises cannot exceed 5% of the company's total assets at the end of the preceding quarter, while the book balance of investments in financial products related to the equity of unlisted enterprises cannot exceed 4%. The aggregate amount of both of these balances can account for no more than 5% of the company's total assets at the end of the preceding quarter.
- The book balance of real estate investments cannot exceed 10% of the company's total assets at the end of the preceding quarter, while the book balance of investments in real estate-related financial products cannot exceed 3%. The aggregate amount of both of these balances can account for no more than 10% of the company's total assets at the end of the preceding quarter.
- The book balance of investments in infrastructure and other debt investment plans cannot exceed 10% of the company's total assets at the end of the preceding quarter.
- The aggregate amount of investments made by an insurance group (holding) company or insurance company in the equity of an enterprise in order to obtain its controlling rights cannot exceed the amount of the company's net assets.

The new notice provides as follows:

- The book balance of investments in equity assets and real estate assets cannot exceed 30% of the insurer's total assets at the end of the preceding quarter.
- The book balance of investments in other financial assets cannot exceed 20% of the insurer's total assets at the end of the preceding quarter.
- The book balance of overseas investments cannot exceed 15% of the insurer's total assets at the end of the preceding quarter.
- For insurers with a solvency ratio of less than 120%, the book balance of investments in listed and unlisted equity assets cannot respectively exceed 20% and 10% of the insurer's total assets at the end of the preceding quarter. There is no restriction on liquid assets.

In addition to these restrictions, the notice stipulates that book balance investments in unitary fixed-income assets, equity assets, real estate assets and other financial assets cannot exceed 5% of the insurer's total assets at the end of the preceding quarter (with some exceptions). Moreover, the book balance of investments in the same listed company cannot exceed 10% of the company's equity; otherwise, it will be deemed an equity investment. The book balance of investments in the same enterprise cannot exceed 20% of the insurer's total assets at the end of the preceding quarter.

Comment

In countries with developed insurance regulatory systems, most investment proportion limits are imposed according to investment category, rather than on specific products (although some jurisdictions impose no limits). Insurance funds in China have been open to investment only for the past few years, as regulatory agencies such as the CIRC are cautious with regard to the application of insurance funds. Nevertheless, with the further development of the insurance market and increased demand for funds, the opening of insurance funds to investment is a growing trend. Although many challenges lie ahead, a more prosperous insurance fund market is expected in the near future.

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