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Research on the Transformation and Advancement of Non-standard Insurance Business in Chinese Insurance Companies: Insights and Recommendations

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Abstract: *Since 2022, insurance institutions have reduced their reliance on fixed interest-earning assets and turned to alternative investments, such as insured debt and trust plans, for better returns. This shift in non-standard asset allocation is timely. Non-standard insurance products, primarily debt investment plans, have significantly boosted investment returns, mitigated asset-liability term mismatches, and supported the real economy. Despite these benefits, meeting the growing demand for non-standard investments remains challenging. This paper explores strategies for transforming and advancing non-standard business in insurance companies, offering valuable insights for developing insurance capital management organizations in China.*

Keywords: *Non-standard Business; Insurance Company; Asset Management Business; Transformation and Development*

1. Introduction

Since 2022, equity markets have exhibited increased volatility while fixed-income yields have been declining rapidly. This period has underscored the importance of alternative investments in bolstering the overall returns of insurance institutions. Notably, a recent trend has seen a significant influx of funds into municipal bonds. This influx has substantially reduced the issuance costs of municipal bonds, particularly high-grade ones [1]. This phenomenon has led to a more comprehensive reflection of the liquidity premium associated with non-standard debt assets, highlighting their cost-effectiveness.

Non-standard asset financing offers financiers a high degree of flexibility, with a shorter time frame for efficiency compared to standardized fundraising. When insurance funds are directed towards non-standard investments like infrastructure debt programs, they are pivotal in supporting major national infrastructure projects [2]. This infusion of funds provides a stable and long-term source of financing for critical national development initiatives, greatly enhancing the alignment of asset and liability durations.

Furthermore, it is worth noting that some underlying assets of infrastructure debt programs align with ESG (Environmental et al.) investment principles. This alignment opens the door for seeking green rating certifications, further bolstering the appeal of such investments. These characteristics are well-aligned with the policy orientation that emphasizes the long-term utilization of insurance funds.

In recent years, insurance funds have displayed a pronounced preference for non-standard investments. This shift contributes to enhancing the efficiency and quality of asset allocation within insurance portfolios. It serves as a driving force for the growth of insurance asset management and investment banking sectors [3].

The evolving landscape of the non-standard market offers the potential for higher returns in various scenarios. Examples include catering to the temporary financing needs of financiers, necessitating quicker payment processing, optimizing the structures of bonded debt and trust plans, approaching semi-annual and annual periods, and making appropriate adjustments to manager compensation. In this post-regulation era, both the asset management industry's landscape and the dynamics of the non-standard markets are undergoing significant changes and restructuring [4]. Insurance asset management faces a

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landscape filled with both opportunities and challenges as it adapts to these evolving market conditions.

2. Definition of non-standard business

Before issuing the 'New Regulations on Asset Management' (officially known as the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions), the China Banking Regulatory Commission (CBRC) in Circular No. 8 of 2013 defined non-standardized debt assets. These were described as debt assets not traded in the interbank and stock exchange markets, encompassing credit assets, trust loans, entrusted claims, accounts receivable, various beneficiary rights, and equity-type financing with repurchase clauses. This definition employed a positive enumeration approach.

In contrast, the new asset management rules took a different approach. They first defined standardized debt assets, setting forth five specific conditions that such assets must meet: divisibility into equal parts, traceability, full disclosure of information, and the presence of a well-functioning liquidity mechanism [5]. Any assets that did not meet all five conditions simultaneously were classified as non-standardized debt assets.

In July 2020, the central bank issued the 'Rules for the Identification of Standardized Creditor Assets.' These rules adhered to the five standards outlined in the new asset management regulations for identifying standardized creditor assets. Furthermore, they provided examples to illustrate that assets previously classified as 'non-standard,' such as wealth management direct financing instruments, assets from the Yindeng Center, and debt financing plans of the Beijing Institute, were henceforth categorized as non-standard assets [6].

An important change was the removal of equity financing with repurchase clauses from the category of non-standard debt, placing it under the equity category. This decision underscored the regulatory authorities' commitment to stringent control over traditional non-standard business practices. This article will focus on non-standard business, which encompasses non-standard debt assets, real assets, non-standard equity, and a broader range of non-standard assets [7]. This scope aligns with the concept of alternative investments.

3. Insurance non-standard investment development status

3.1 Current situation of non-standard investment by insurers

Since 2012, there has been a notable increase in the allocation of insurance funds to non-standard assets. These investments have encompassed various sectors, including transportation, energy, municipal development, environmental protection, water resources, shanty reform, housing, logistics and warehousing, industrial parks, and more.

Insurance companies have actively provided financial support for critical national strategic initiatives such as the 'Belt and Road' initiative, Beijing-Tianjin-Hebei Synergistic Development, the Yangtze River Economic Belt, major infrastructure projects, and essential people's livelihood programs. Their participation in these projects underscores their commitment to the nation's development.

3.2 Main Motivations for Insurers to Strengthen Non-standard Investments

As global economic growth rates decline and open market volatility rises, insurers face heightened uncertainty in asset allocation decisions, making the task more challenging. The insurance industry is one of the financial market's most significant long-term institutional investors.

From an asset-liability allocation perspective, aligning long-term stable assets with the insurance industry's capital advantages and professional capabilities becomes increasingly imperative. This strategic approach allows insurers to better withstand higher liquidity and market volatility risks, all in pursuit of higher risk premiums.

Non-standard investments, as quintessential non-public market ventures, are inherently characterized by information opacity and a lack of fair pricing. In contrast to traditional investments, non-standard investment strategies are more specialized and complex, often featuring longer product terms. Consequently, these investments are particularly well-suited for professional institutional investors.

Insurance funds, in particular, possess an inherent advantage when matching investment terms, yield

expectations, and cash flow requirements with non-standard investments. This alignment catalyzes insurance funds to intensify their involvement in non-standard investments. The primary drivers behind this strategic shift within insurance funds can be attributed to the following factors:

3.2.1 Seeking Higher Returns

Non-standard investments carry elevated liquidity and market risk premiums, primarily due to extended lock-up periods and reduced liquidity compared to traditional investments. Chinese insurers have consistently increased their allocation to non-standard investments, partially replacing bank deposits within their investment portfolios. This shift is primarily driven by the desire to enhance yields, as the average return on debt investment plans surpasses deposits, bonds, and comparable investments during the same period.

3.2.2 Seek assets with longer maturities

Insurance funds are steadfast in their commitment to attaining long-term, risk-adjusted, and rational returns. They have the luxury of setting extended timeframes for asset allocation and investment operations, allowing them to avoid an excessive focus on short-term returns and associated volatility. One persistent challenge in our financial system is the absence of local long-term bonds that match insurers' long-term liabilities. This issue makes insurers susceptible to maturity mismatches, possessing long-term capital but facing short-term investment maturities.

Real assets such as infrastructure and real estate offer a compelling solution to this problem. They generate highly stable and sustainable cash flows over extended periods, boasting resilience against inflation and preserving substantial value. These investments are regarded as high-quality medium- and long-term assets within the market, aligning well with insurers' long-term objectives.

3.2.3 Risk diversification

Recent developments in the global economic landscape, including trade conflicts between the United States and China and geopolitical tensions, have created a complex and overlapping set of challenges. Financial markets are experiencing escalating volatility as a result.

In this environment, non-standard investments offer distinct return and risk profiles compared to traditional publicly traded assets. They serve as valuable tools for insurers to construct diversified investment portfolios. These investments enhance the stability of returns and effectively mitigate the impact of short-term fluctuations in economic cycles and capital markets, reinforcing insurers' resilience in times of uncertainty.

4. Current opportunities for insurance asset management to carry out non-standard investment

4.1 New requirements of economic transformation and upgrading for the reform of China's investment and financing system

The Fifth Plenary Session of the 18th CPC Central Committee emphasized the pivotal role of investment in driving economic growth. It underscored the need to deepen investment and financing system reforms, optimize investment structures, and boost effective investments. A particular emphasis was placed on addressing challenges associated with capital flow in major infrastructure projects, municipal initiatives, and specific real economy sectors. In pursuing economic transformation and upgrading, establishing a multi-level, diversified, and market-oriented financial service system is crucial. In this context, the presence and development of non-standard financial products hold immense significance for the real economy.

Non-standard investments represent a valuable addition to the investment and financing landscape. The existing standardized debt financing processes often involve high thresholds and rigid requirements for financing entities and related assets. This approach lacks the flexibility required to accommodate various enterprises' financing needs. Furthermore, China's direct financing market remains underdeveloped, resulting in persistently challenging and costly enterprise financing.

One of the primary catalysts for the emergence of non-standard products in China lies in the innovative response to the financing demands of enterprises, particularly those with weaker credit profiles. When traditional financing avenues such as bank credit and bonds fall short, non-standard solutions come to the rescue. Admittedly, non-standard investments face issues related to transparency and liquidity. However, in practical terms, they significantly improve the overall financing structure.

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From an investor's perspective, the illiquidity and non-transparency of non-standard investments can yield a corresponding premium, making them an attractive avenue for enhancing investment returns. Therefore, non-standard investments serve as a robust complement to the standardized financing market, providing additional financing channels for entities and enriching China's investment and financing system. Their continued existence is reasonable and likely to persist for an extended period.

4.2 Insurance Industry Returns to Protection to Advance Asset Side and Actively Seek Transformation

The insurance industry remains steadfast in its core role of 'insurance as insurance,' emphasizing protection as its primary function. This renewed focus on protection has resulted in notable changes: Shift to Protection-Centric Products: Insurance products have transitioned from being predominantly investment-focused to placing greater emphasis on protection. This shift has led to an extension of liability durations. Strengthened Asset-Liability Matching: A more robust asset-liability matching strategy is now in place, effectively mitigating the risks associated with asset-liability mismatches. Under this 'hard constraint,' the asset side has become more adaptive to changes in the liability side's product structure, ensuring a harmonious interaction between the two.

This alignment has increased demand for fixed-income products with longer maturities. Non-standard assets have emerged as a suitable investment target to fulfill this demand while maintaining the industry's commitment to its protective mission.

Beyond the risks associated with asset-liability mismatch, the insurance industry also grapples with the challenge of carry loss. This risk is amplified when asset classes lack robust market pricing mechanisms, making them more prone to harboring investment opportunities. This phenomenon is particularly evident in the case of non-standard assets. It is important to note that non-standard assets are not exclusive to China. They are prevalent in foreign markets, notably within alternative credit asset investment funds. These funds often employ strategies that capitalize on arbitrage opportunities arising from the deleveraging processes of traditional financial institutions and liquidity crises in financial markets.

Large alternative asset management firms often maintain dedicated credit asset investment divisions. Despite facing setbacks, such as the U.S. high-yield bond market's challenges amid widening global credit spreads, these credit asset investments continue to contribute a significant portion of management fee income and performance-based compensation.

4.3 Post-New Asset Management Regulation Era

The introduction of new capital management regulations, as a pivotal component of the financial industry's supply-side reform, serves to address issues like term mismatches and rigid payment structures. These regulations aim to curtail unregulated non-standard investments. However, it is important to note that the new asset management regulations do not eliminate non-standard business. They continue to provide essential support for financing real economy endeavors.

In the post-capital management era, the trajectory of non-standard financing is evolving toward 'non-standard to loan, non-standard to standard, non-standard to regulation.' This transition presents hidden opportunities for insurance funds. With their distinguishing characteristics of long-term investment horizons and substantial capital volumes, insurance funds align naturally with non-standard products. The 'non-standard to regulation' segment of asset opportunities is increasingly anticipated to gravitate toward insurance funds.

As a result, insurance asset management is poised to become the primary conduit and vehicle for non-standard investments. However, this shift places elevated demands on the insurance industry, particularly regarding its design capabilities, asset selection proficiency, risk management acumen, and post-investment management capabilities within the non-standard market.

5. Problems faced by the current insurance non-standard investment

While insurance funds undoubtedly possess a distinct comparative advantage in non-standard investments, increased participation remains urgent. Objectively speaking, the depth of insurance capital management's engagement in the non-standard market is somewhat limited. From the capital perspective, insurance capital management accounts for a relatively modest share, with the total registered scale of insurance capital management products remaining relatively small.

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This situation reflects a somewhat unimposing stature within the insurance capital management industry when viewed in terms of product categories. Currently, non-standard products predominantly revolve around receivables, accounts receivable, trust loans, entrusted claims, promissory notes, letters of credit, and equity financing with pending repurchase terms.

On the flip side, the insurance industry's engagement primarily centered on infrastructure and real estate debt investment plans, equity investment plans, and asset support plans has revealed a certain degree of monotony in product types and structures. These real-world challenges shed light on the pressing need for the insurance asset management sector to expand its asset accumulation, diversify its product offerings, and gain more extensive project experience. Moreover, these circumstances call for a deep reflection on the existing regulatory framework and the industry practices governing non-target investments within the insurance sector.

5.1 Regulatory level

Since 2012, regulatory efforts have followed a 'liberalize the front end and regulate the back end' approach, seeking to minimize administrative oversight and empower market participants with increased operational and investment autonomy. Starting in 2013, products like infrastructure debt investment plans transitioned from a filing system to a registration system, significantly improving issuance efficiency. Nonetheless, several considerations persist."

5.1.1 Product distribution

Existing regulations governing product issuance in the insurance industry primarily focus on financing entities, fund investments, credit enhancement measures, credit ratings, and risk management. These regulations adopt an enumerative approach, setting rigorous requirements for various forms of credit enhancement. While these provisions ensure high security when utilizing insurance funds, they have also contributed to a standardized and somewhat rigid transaction structure in existing insurance capital management products.

Furthermore, the emphasis on credit enhancement measures and counterparty credit risk prevention, rather than addressing product and underlying asset risks, has led to a high degree of homogenization in the business development logic of insurance asset management. This logic often mirrors standardized bond and bank credit activities, resulting in limited financing costs and product issuance efficiency advantages.

Consequently, despite being classified as non-standard investment products, current insurance asset management offerings do not fully encompass the essence of non-standard investments. They face challenges in adapting to the unique needs of financiers and meeting the non-standard allocation requirements of insurance funds. Enhancing the professional expertise in investment and product design within the insurance asset management sector presents its own difficulties. Additionally, insurance asset management often assumes a relatively passive role in asset-side competition.

5.1.2 Aspects of Investment Channels

Insurers currently have access to three primary non-standard investment channels. These channels encompass direct involvement in major equity and real estate investments, participation in insurance asset management products like debt investment plans, equity investment plans, asset support plans, and investments in pooled trust plans. It is essential to note that significant equity and real estate investments entail substantial capital, resource commitment, and specialized expertise. Consequently, these avenues are predominantly explored by a handful of leading insurance enterprises.

In contrast, debt investment plans focus on real estate and infrastructure sectors, which exhibit large capital demands and extended investment cycles. However, these investments align well with the maturity characteristics of insurance funds, particularly within the context of the current economic restructuring and regulatory landscape. It is worth emphasizing that policy considerations significantly influence both the nature of these investments and their counterparties.

Nonetheless, the restricted scope of investment fields poses challenges in fully satisfying the non-standard investment requirements of insurance funds. This inherent limitation also amplifies investment risks within the insurance sector.

5.1.3 Aspects of the New Regulation on Capital Management

Firstly, as the move towards 'non-standard to standard' gains momentum, it is inevitable that the short-

term non-standard market will contract. This shift aligns with the prevailing trend in insurance capital management products, particularly the dominant debt investment plans, which exhibit strong standardization under current regulations. These products will likely transition towards standardization in the future. While such a move would enhance liquidity and visibility, it may dilute liquidity risk and market risk premiums, leading to a downward trend in yields. Consequently, it could increase the challenge of achieving higher returns for insurance funds.

Secondly, the stringent regulatory environment will significantly impact the trust industry, potentially leading to a substantial decline in the supply of non-standard products. This will exacerbate the pressure on insurance funds grappling with the 'asset shortage.'

Thirdly, under unified supervision, the trading market is expected to move towards integrated management, putting insurance funds in direct competition with bank funds. Given the relative cost disadvantage in the standardized market investment space, insurance funds may face greater challenges in asset allocation. Consequently, after new asset management regulations, insurance funds may encounter compounded pressures—a shortage of standardized and non-standard investment opportunities. Even if insurance funds are willing to trade high yields for short-term liquidity, they might struggle to identify sufficient investment targets. This scenario presents a serious challenge to insurance asset allocation.

In light of these challenges, effective alignment between the urgent demand for insurance funds for non-standard assets and the financing needs of non-standard asset providers could yield substantial benefits for both parties.

5.2 Market Entity Level

From the standpoint of market participants, whether it pertains to non-standard investments or the issuance of non-standard products, there remains room for improvement in terms of specialization.

5.2.1 Credit ratings

Many insurance agencies still rely on standardized bond product credit assessments that employ expert judgment methods and scorecard rating models for a single rating entity. However, these methods often struggle to adequately consider the influence of factors such as varying terms, liquidity disparities, and product structure distinctions on credit ratings.

5.2.2 Product design

Insurance asset managers primarily concentrate on debt investment plans, with limited involvement in asset securitization and equity investment plans. The transaction structures of debt investment plans tend to be relatively uniform and lack the flexibility in trust products. Asset securitization products lag in selecting underlying assets and designing transaction structures when compared to their counterparts in exchange markets.

Concerning equity investment plans, they have historically leaned towards nominal equity, focusing on fundraising rather than genuine equity investment concepts and capabilities. In the broader context, the asset management industry still struggles with non-standard investment product design capabilities.

5.2.3 Risk management

Insurance institutions tend to adopt a more robust risk management approach when dealing with standardized bond investments. However, they may lack the expertise and judgment required for the specialized product design associated with non-standard investments. Additionally, their capabilities in risk assessment, post-investment management, and asset disposal in the non-standard investment space may be relatively underdeveloped.

6. Suggestions on the development of non-tender investment by insurance capital management

In the post-new asset management rules era, all asset management institutions compete on a level playing field, with insurance asset management being considered an equal and fair market participant. This marks the dawn of a new era in competition, where numerous players vie for success, akin to a vast fleet with thousands of sails and hundreds of barges. In this dynamic landscape, choosing to engage in homogenized competition can have detrimental consequences, potentially leading to either covert price wars or orchestrated price hikes, ultimately resulting in market failure.

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In light of the evolving industry dynamics and the imperative to adapt to change, asset management institutions should embrace a strategic positioning that centers on the core principles of "insurance as insurance" and a commitment to serving their primary business. The key to success lies in differentiation in competitive strategies, focusing on strengthening non-standard investment capabilities. This enhancement is not just desirable; it is a logical necessity. With this in mind, the following suggestions are put forth:

6.1 Regulatory reform to help rationalize insurance asset management non-standard product ideas

6.1.1 Shift in regulatory philosophy

The development of our modern financial system has occurred over just a few decades and has been primarily driven by a top-down approach led by regulators. While this model has brought benefits, such as mobilizing significant resources and rapidly expanding the size of the financial market, it has also revealed some inherent problems.

Firstly, the development of financial institutions has often relied on regulatory advantages and arbitrage, leading to a lack of active management capabilities and a proliferation of homogenized services and products.

Secondly, financial institutions frequently lack comprehensive experience across the entire financial cycle, and their awareness and abilities in risk management are often relatively weak.

Thirdly, the structure of the financial market remains unbalanced and has not yet evolved into a multi-level financial product system.

Fourthly, the financial market tends to fall into a pattern of "a pipe is dead, a release is chaotic," as there is often a lack of determination in supervision between the phases of financial product creation and distribution. This situation has led to inefficiencies in resource allocation within China's financial market, where institutions may be large but not necessarily strong.

In addressing these challenges, regulators and financial institutions must work collaboratively to enhance the efficiency of resource allocation, promote the development of more robust and diversified financial products, and strengthen risk management capabilities throughout the financial industry. By doing so, China can achieve a more balanced and sustainable financial ecosystem.

6.1.2 Comprehensive revision of restrictive covenants for insurance asset management non-standard products

China's debt market has experienced significant growth in recent years, offering a diverse array of debt products. However, unlike foreign markets, the complexity of China's debt products is largely a result of regulatory segmentation and administrative controls rather than reflecting the diverse needs of investment and financing. There is an urgent need to reform the current regulatory framework to address this issue and better align the market with market-driven dynamics. This reform should allow insurance capital management non-standard products to exhibit market-driven characteristics, including:

6.1.2.1 Gradually liberalize the regulations on the investment areas, entry standards, credit enhancement measures, and use of funds for insurance asset management non-standard products.

It is recommended that regulatory focus shift towards assessing market players' investment capacity and risk control abilities while also taking steps to promote greater market-driven dynamics. Here are some key suggestions:

Shift to Risk-Based Regulation: Transition towards a risk-based regulatory approach that assesses the risk profiles of market participants and their products, allowing for a more customized and targeted regulatory framework.

By implementing these recommendations, China can encourage a more dynamic and innovative financial market, empower asset managers to excel in their roles and improve the overall efficiency and effectiveness of the regulatory environment. This shift will better align the financial industry with the evolving needs of investors and issuers, ultimately fostering a healthier and more competitive market ecosystem.

6.1.2.2 Do not make a blanket distinction between debt and equity plans

The current model of categorizing insurance investment plans into debt and equity is recommended to be reevaluated. Such a uniform classification may not adequately address the market's diverse

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investment and financing needs. To enhance flexibility and better align with real market demands, a more nuanced approach can be considered, drawing inspiration from international experiences.

Holistic Financing Solutions: Recognize that significant projects often require a blend of equity and debt financing and both short and long-term capital. This approach acknowledges the complexity of large-scale endeavors and aims to provide comprehensive financial solutions.

Mezzanine Debt Inclusion: Mezzanine debt, a valuable financing tool for infrastructure and real estate projects, should be embraced as an essential asset class for long-term institutional investors like insurers and pension funds. Its unique risk-return profile can contribute to a diversified portfolio.

Flexible Transaction Structures: Allow investment and financing parties greater autonomy in determining transaction structures. This flexibility will enable tailored solutions that better meet the specific requirements of projects and investors, ultimately fostering efficiency and innovation.

Promote Competition: Encourage competition between insurers and other financial institutions by permitting them to offer a broader range of investment and financing options. This competitive environment can lead to improved products and services for investors.

By adopting a more adaptive regulatory approach that reflects the multifaceted nature of investment and financing needs, China can enhance its ability to provide comprehensive financial solutions for large projects, align with international best practices, and promote a competitive and innovative financial sector.

6.1.2.3 Promote the layering of insurance asset management non-standard product system

China can consider adopting a layered design approach to enhance the flexibility and attractiveness of insurance capital management non-standard products, taking inspiration from the U.S. model. This approach involves creating standardized products while providing options for more specialized, non-standard offerings. Here are some recommendations to achieve this:

Standardized Product Framework: Regulators can expedite the development of standardized product frameworks, secondary trading mechanisms and basic information disclosure requirements. These standardized products should improve liquidity, market recognition, and transparency.

Attracting Diverse Investors: Standardized products should be structured to attract a wide range of investors, including banks, annuities, pensions, and other institutional investors. This diversification can help deepen the market and increase participation.

Incorporating Existing Assets: Consider including existing insurance asset management products in the standardized framework. These products often have stable cash flows, clear ownership structures, and manageable risks. China can tap into the re-securitization market's significant potential by securitizing these assets.

Balanced Regulation: Strike a balance between creating standardized products and maintaining room for innovation in non-standard offerings. Regulators should provide clear guidelines for standardized products while allowing insurers and asset managers flexibility to meet specific investor needs.

By implementing these recommendations, China can foster a more dynamic and diversified insurance capital management market. This approach can help attract a broader range of investors, improve market efficiency, and unlock the potential of existing insurance assets for further development and securitization.

6.1.2.4 Streamlining the Product Registration Process

To improve the issuance efficiency of insurance asset management products and enhance their competitiveness, China can consider adopting a pre-registration approval model similar to what is used for trust plans and other asset management products. Here is how this approach could be implemented.

Pre-Registration Approval Model: Under this model, the focus of regulatory examination shifts from post-issuance approvals to pre-registration reviews. Insurance asset management products must complete certain project elements before being eligible for registration.

Completeness of Project Elements: The completeness of project elements would be a central criterion for registration. Insurance asset management institutions must ensure that all necessary project details, documentation, and risk assessments are in place before registering a product.

Substantive Review Responsibility: Insurance asset management institutions would bear greater substantive review responsibilities for their projects. They would be accountable for thoroughly assessing and managing risks associated with the product, which includes conducting due diligence, evaluating

creditworthiness, and ensuring adequate investor protection measures.

Enhanced Issuance Rate: By streamlining the registration process and making it contingent on the completeness of project elements, the issuance rate of insurance asset management products is likely to increase. This efficiency can be a competitive advantage for these products.

This model can help reduce regulatory bottlenecks and expedite the issuance of insurance asset management products. It also promotes greater responsibility and accountability for asset managers, which can contribute to improved product quality and investor protection.

6.1.3 Allow and encourage insurance custodians to invest in non-standard investments on a fund-of-funds model

To enhance the effectiveness and diversification of insurance asset management, considering a shift from the single-project model to a fund-based approach for Debt Investment Programs can be beneficial. Here is how this approach might work.

Fund-Based Non-Standard Investments: Insurance asset management institutions could establish funds dedicated to non-standard investments instead of following a one-to-one project-to-project model. These funds would pool capital from insurance companies and possibly other investors, such as pensions, annuities, and other institutional investors.

Portfolio Investment: With a fund-based approach, insurance asset managers would have the flexibility to diversify their investments across a portfolio of non-standard assets. This diversification helps spread risk, improve returns stability, and reduce the concentration risk associated with individual projects.

Attracting Diversified Funds: By opening up the participation to a wider range of investors, including pensions, annuities, and other institutional funds, the fund-based approach can enhance the capital pool available for non-standard investments. This can increase the scale and attractiveness of such investments.

Risk Management: The fund-based model allows for more effective risk management by distributing investments across multiple projects or assets. Risk assessment, due diligence, and monitoring can be applied at the portfolio level, providing a more comprehensive approach to risk mitigation.

Professional Investment Capabilities: Insurance asset management institutions can leverage their professional investment expertise more effectively when managing a diversified portfolio of non-standard assets within a fund structure.

By transitioning to a fund-based approach, insurance asset management institutions can unlock the potential for better risk management, diversification, and attractive returns. Additionally, it can make these investments more accessible to a broader range of institutional investors, ultimately contributing to the growth and development of the non-standard investment market.

6.2 Recommendations for the development of market players

In the post-new capital management rules era, financial institutions, including insurers, should remain committed to serving the genuine financing needs of the real economy. Whether the economic environment is facing challenges or experiencing rapid growth, these institutions should focus on building their brand and enhancing their professional capabilities. As the asset management industry gradually takes on a more differentiated structure, insurers, with their core focus on serving their primary insurance business, should leverage their unique attributes in terms of capital and their distinct investment philosophies.

One key area of focus should be the continuous improvement and expansion of non-standard investments. These investments are vital in enhancing returns and optimizing asset allocation for insurers. By remaining dedicated to non-standard investments and further refining their expertise in this area, insurers can better meet the evolving needs of their clients while staying aligned with their core mission of insurance provision.

7. Conclusions

In summary, insurers should prioritize their commitment to non-standard investments, considering their pivotal role in both challenging and prosperous economic times. This strategic approach will help insurers navigate the changing landscape of the asset management industry and continue to provide

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valuable services to their policyholders and clients.

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