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Non-standard investment risks of insurance funds and coping strategies summary

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Abstract: As the global economic environment continues to change, the investment strategy of insurance funds also needs to be adjusted. As an emerging investment method, non-standard investment has attracted the attention of many insurance companies with its high returns. However, this form of investment is also accompanied by high risks, especially when market volatility increases. This article aims to explore the main risks faced by insurance funds in non-standard investment, and analyze the current risk management status and countermeasures of the industry.

1. Introduction

As the global economic environment becomes increasingly complex and changeable, the investment strategy of insurance funds becomes increasingly important. As the returns from traditional investment channels gradually shrink, non-standard investments, with their relatively high return potential, have gradually become a new hot spot for insurance companies to pursue investment returns. However, along with high returns come risks that cannot be ignored. Especially in the context of the current intensified volatility in the financial market, the risks of non-standard investments have been magnified, and they urgently need to be paid close attention to by both inside and outside the industry.

Insurance funds are an important source of funds for insurance companies to fulfill their future compensation obligations. The security and stability of their investments are of vital importance[1]. Non-standard investments usually refer to investment methods other than traditional standardized investment products such as stocks and bonds, including but not limited to asset-backed securities, equity investments, trust plans, etc. These investment methods often have higher flexibility and customization, and can be personalized according to the specific needs of investors, thus also bringing higher investment returns.

However, these characteristics of non-standard investments also mean higher risks. On the one hand, the structure of non-standard investment products is complex and relatively low in transparency, which makes it more challenging for investors to assess risks and make investment decisions. On the other hand, non-standard investments are usually less liquid and may be difficult to cash out quickly once the market environment changes, thus increasing investment risks.

In response to these risks, insurance companies need to adopt more cautious and sophisticated investment strategies[2]. This includes strengthening due diligence on non-standard investment projects, improving the accuracy and comprehensiveness of risk assessments, and establishing a more comprehensive risk management system. Insurance companies also need to pay close attention to market trends and adjust their investment portfolios in a timely manner to respond to possible risk events.

This article aims to deeply explore the main risks faced by insurance funds in non-standard investments and analyze the current status and challenges of the insurance industry in risk management. By combining actual cases and data analysis, this article will provide insurance companies with more specific and practical risk management suggestions, in order to help the insurance industry better ensure the safety and stability of funds in the pursuit of investment returns.

2. The Present State and Classification of Insurance Fund Investments in China

Insurance funds usually refer to the funds accumulated by insurance companies through the collection of premiums and other means. These funds need to be effectively invested to obtain returns, thereby enhancing the solvency and operational stability of the insurance company. In order to meet future compensation obligations, insurance companies will invest these funds in a variety of channels, including stocks, bonds, real estate, etc., to achieve asset value preservation and appreciation.

Among the many investment methods, non-standard investment has gradually attracted the attention of insurance companies in recent years. Non-standard investment, that is, non-standard debt asset investment, mainly includes asset securitization products, equity investment, trust plans, etc. Compared with standardized financial products, non-standard investment often has a higher rate of return, but it is also accompanied by higher risks. The characteristics of this type of investment method are the particularity of its investment targets. Unlike publicly issued stocks and bonds, non-standard investment has relatively poor liquidity, low market transparency, and risks that are difficult to accurately quantify.

With the continuous innovation and development of the financial market, non-standard investment has gradually become an important part of insurance fund allocation. Insurance companies can seek higher investment returns and thus enhance their competitiveness by participating in non-standard investment. However, it is precisely because of the complexity and opacity of non-standard investment that insurance companies face many potential risks in the investment process.

These risks include but are not limited to market risk, credit risk, liquidity risk, etc. Market risk refers to investment losses due to market price fluctuations; credit risk refers to capital losses due to debtor default; and liquidity risk refers to the risk of not being able to cash out in time when funds are needed. The existence of these risks requires insurance companies to act cautiously in non-standard investments, so as not to ignore risk management in pursuit of high returns.

In recent years, with the tightening of regulatory policies and changes in the market environment, insurance companies have become increasingly cautious in their attitude towards non-standard investments. In order to reduce risks, insurance companies have not only strengthened due diligence on investment projects, but also optimized their investment portfolios through diversified investments and risk diversification. Some insurance companies have also begun to try to use advanced technologies such as big data and artificial intelligence to improve the accuracy of risk assessment, in order to obtain higher investment returns while ensuring the safety of funds[3].

3. Theoretical Analysis

Insurance funds face multiple risks in non-standard investments, among which market risk, credit risk, liquidity risk and operational risk are particularly prominent[4]. These risk factors have a profound impact on the investment security of insurance funds and cannot be ignored.

Market risk mainly comes from market price fluctuations, which may cause the value of investment assets to decline significantly. Changes in the macroeconomic environment and policy adjustments are important causes of market risk. For example, when the economic environment is unstable or there are major policy adjustments, market prices may fluctuate violently, thereby reducing investment returns or even causing principal losses. In this case, although risk assessment models such as the Capital Asset Pricing Model (CAPM) can provide some reference, due to their idealized assumptions, they are difficult to fully reflect the complex situation of the real market.

Credit risk is the risk caused by debtor default. When the debtor's operating conditions deteriorate or their credit rating declines, they may not be able to repay the principal and interest on time, thereby increasing the risk of bad debts and reducing the return on investment. Although models such as Credit Metrics can be used to assess credit risk, these models mainly rely on historical data and have relatively limited predictive capabilities for the future.

Liquidity risk refers to the risk that investment assets are difficult to realize at a reasonable price in a short period of time. Insufficient market liquidity or the special nature of assets may lead to liquidity risk. This risk will limit the flexible use of funds and may even cause investors to miss better investment opportunities. Although frameworks such as the Liquidity Risk Management Framework can help manage liquidity risk, accurately quantifying liquidity risk remains a challenge and is greatly affected by the market environment.

Operational risk mainly originates from internal processes, personnel, systems or external events. Internal mismanagement, employee errors or system failures can all lead to operational risk. This risk will increase operating costs and reduce investment efficiency[5]. Although frameworks and tools such as Operational Risk Management (ORM) can be used to manage operational risk, it is still difficult to fully cover all operational risk points and conduct accurate assessments.

The market risk, credit risk, liquidity risk and operational risk faced by insurance funds in non-standard investments cannot be ignored. These risk factors may have a significant impact on investment security and return rate. Therefore, when making non-standard investments, insurance companies should fully consider and evaluate these risk factors and formulate corresponding risk management strategies to ensure the security and stability of funds[6].

4. Empirical Research Design (Ten thousand RMB)

In the empirical research design, through in-depth data collection and analysis, Table 1 the actual risk status of insurance funds in the field of non-standard investment is comprehensively examined. In order to ensure the accuracy and pertinence of the research, this paper carefully selected five representative insurance companies and their non-standard investment projects as research objects. These companies include China Life Insurance, Ping An Insurance, China Pacific Insurance, Taikang Life Insurance and New China Life Insurance. Their investment projects cover multiple non-standard investment types such as debt investment plans, equity investment plans, private equity, trust investment and asset securitization.

We will use a combination of quantitative and qualitative research methods to conduct a detailed analysis of key indicators such as investment returns, risk volatility and number of default events of these investment projects[7]. For example, China Life Insurance's infrastructure construction project A has an investment return rate of 6.5%, low risk volatility, and no default events, showing relatively stable investment returns and risk control capabilities. In contrast, although China Pacific Insurance's private equity fund C has an investment return rate as high as 12.0%, its risk volatility has also increased significantly, reaching a standard deviation of 0.10. This reminds us that we must carefully evaluate and manage potential risks in the pursuit of high returns.

Table 1: The actual risk status of insurance funds in the field of non-standard investment

Name	Project Name	Type	Investment amount	Return (%)	Standard Deviation	Default events	Risk management advice
China Life Insurance	Infrastructure Construction Project A	Debt investment plan	50000	6.5	0.03	0	Strengthen credit assessment and diversify investments to reduce risks
Ping An Insurance	Real estate investment project B	Equity investment plan	30000	8.2	0.05	1	Strengthen project monitoring and establish a rapid response mechanism
China Pacific Insurance	Private Equity Fund C	Private Equity	20000	12.0	0.10	0	Choose fund managers carefully and set reasonable stop-loss points
Taikang Life Insurance	Trust Plan Project D	Trust Investment	40000	7.0	0.04	2	Strengthen due diligence of trust companies and optimize investment portfolios
Xinhua Insurance	Asset-backed program E	Asset Securitization	15000	5.8	0.02	0	Focus on the quality of underlying assets and guard against liquidity risks

By comparing and analyzing the risk characteristics of various investment projects, this paper aims to reveal the true risk level of current insurance funds in non-standard investments. On this basis, combined with the results of empirical research, a series of targeted risk management suggestions are proposed. For example, for China Ping An Insurance's real estate investment project B, considering that it has a default event, this paper recommends strengthening project monitoring and establishing a rapid response mechanism to deal with possible risk events[8].For Taikang Life's trust plan project D, this paper recommends strengthening the trust company's due diligence to optimize the investment portfolio and reduce overall risk.

In general, this empirical research design aims to provide insurance companies with scientific and effective risk management advice through in-depth data analysis, and to help insurance funds achieve safer and more stable development in the field of non-standard investments[9].

5. Experimental Results and Analysis

Based on the results of previous empirical research, Table 2 The specific impact of various types of non-standard investments on insurance funds. By analyzing typical cases in detail, this paper can more intuitively understand the returns and risks of non-standard investments, and further reveal potential risk factors and their impact on the liquidity of insurance funds.

Ping An of China invested in the infrastructure construction project trust plan with an investment scale of RMB 500 million, an investment period of 5 years and an expected rate of return of 6.5%. However, the investment faces the risk of project delay and default of the financing party. Once these situations occur, the allocation of funds will be affected in the medium term, which will put pressure on the liquidity of the insurance company. In order to deal with these risks, Ping An of China has adopted strict due diligence, risk mitigation measures and diversified investment strategies.

Table 2: The specific impact of various types of non-standard investments on insurance funds

Title	Summary	Specific case analysis
Non-standard investment risks of insurance funds and coping strategies	Provide detailed information on the specific impact of various types of non-standard investments on insurance funds; demonstrate the benefits and risks of typical non-standard investment projects; reveal risk factors and their impact on fund liquidity; present data with charts; evaluate risk management strategies and provide empirical evidence	Case 1: Ping An of China invested in a trust plan Investment project: infrastructure construction project Trust plan investment scale: 500 million yuan Investment period: 5 years Expected rate of return: 6.5% Risk factors: project delay, default of the financing party Impact on liquidity: may affect fund allocation in the medium term Risk management strategy: strict due diligence, set up risk mitigation measures, and diversify investment Case 2: Taikang Life Insurance invested in a private equity fund Investment project: technology innovation enterprise private equity fund Investment scale: 200 million yuan Investment period: 7 years Expected rate of return: 10% Risk factors: poor business operations and poor exit mechanism Impact on liquidity: long-term investment, low liquidity Risk management strategy: select investment projects, participate in corporate management, and diversify investment portfolio Case 3: China Life Insurance invested in an asset-backed plan Investment project: commercial real estate asset-backed plan Investment scale: 300 million yuan Investment period: 10 years Expected rate of return: 7% Risk factors: market volatility, decline in rental income Impact on liquidity: long-term investment, but with certain securitization liquidity Risk management strategy: assess asset value, set stop loss points, and regularly review asset status

Taikang Life Insurance invested in a private equity fund for technology innovation companies with an investment scale of 200 million yuan and an investment period of 7 years, with an expected rate of return of 10%. However, the risk factors of such investments include poor business operations and poor exit mechanisms, which will have an impact on the long-term liquidity of insurance companies. Taikang Life Insurance manages these risks by selecting investment projects, participating in corporate management, and building a diversified investment portfolio.

China Life's commercial real estate asset-backed plan has an investment scale of RMB 300 million, an investment period of 10 years, and an expected rate of return of 7%. Although the investment has a certain degree of securitization liquidity, it still faces the risk of market volatility and declining rental income. The risk management strategy adopted by China Life includes assessing the value of assets, setting stop-loss points, and regularly reviewing the status of assets.

Based on the above case analysis, this article can see that although non-standard investments can provide higher returns for insurance funds, they are also accompanied by significant risks. These risk factors may not only affect the rate of return on investments but may also have a negative impact on the liquidity of the insurance company. Therefore, when insurance companies make non-standard investments, they must carefully assess risks, formulate scientific risk management strategies, and ensure the diversity of the investment portfolio to reduce the impact of a single project risk on the overall investment portfolio.

Through the display of chart data, this article can more clearly see the risk characteristics and returns of various non-standard investments. These data not only provide valuable decision-making basis for insurance companies, but also provide industry regulators with effective risk monitoring methods. In the future, as the financial market continues to change, insurance companies will need to continuously adjust and optimize their investment strategies to adapt to the new market environment and ensure the safety and profitability of funds.

6. Conclusion and Discussion

The use of insurance funds in non-standard investment has become a focus of attention in the industry in recent years. This paper reveals the risks inherent in non-standard investment and the corresponding coping strategies through in-depth research and empirical analysis.

The study found that although non-standard investments provide insurance companies with higher investment returns, they are also accompanied by significant risks. These risks include but are not limited to market risk, credit risk, liquidity risk and operational risk. Market risk is mainly reflected in asset price fluctuations, which directly affects the value of non-standard investments and the balance sheet of insurance companies. Credit risk is closely related to the performance ability of the counterparty. Once the counterparty defaults, it may lead to investment losses. Liquidity risk is due to the relatively poor liquidity of non-standard investments and the difficulty in realizing them in a short period of time, which may put financial pressure on insurance companies when the market is turbulent. Operational risks mainly originate from internal management and human operating errors. Although this risk can be reduced by strengthening internal control, it still requires continuous attention and optimization.

In response to these risks, this paper proposes a series of coping strategies. It is crucial to conduct a comprehensive risk assessment before making an investment decision, which includes an in-depth analysis of the feasibility of the investment project, the credit status of the counterparty, and the market environment. Insurance companies should establish a sound risk management system, diversify their investment portfolios to spread risks, and set up risk reserves to deal with potential losses. Strengthening the standardization and transparency of internal operating processes and ensuring the scientific and compliant nature of investment decisions are also key to reducing operational risks.

Based on the results of empirical research, this paper also conducts risk assessment and strategic recommendations for different types of non-standard investments. For example, in the field of asset securitization, this paper suggests that insurance companies should focus on the quality of the underlying assets and the stability of cash flow; in terms of equity investment, they should focus on the growth potential and industry prospects of the invested companies.

As one of the important ways to use insurance funds, non-standard investment is of vital importance for risk management. This study not only provides theoretical support and practical guidance for insurance companies, but also contributes to the steady development of the industry. In the future, as the financial market continues to change and innovate, insurance companies need to continue to pay attention to and adapt to these changes to ensure the safety and profitability of funds.

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