Chapter 2
Historical Evolutionary Trajectory of Financial Institutions in China

In the past 70 years, China's financial organizations showed an unprecedented expansion tendency by developing a diversified institutional system and spawning multiple sub-sectors, forming the backbone of China's financial sector, and becoming major participants in the financial market.

2.1 The System and Main Types of Financial Institutions

Alongside monetary and regulatory authorities,[1] China's financial institutional system also consisted of banking financial institutions, securities financial institutions, insurance financial institutions and other non-banking financial institutions, among others.

2.1.1 The Banking Financial Institutional System

Banking financial institutions refer to depository and non-depository intermediaries, which primarily engage in the financing business.

Depository banking institutions refer to large state-owned commercial banks, national joint-stock commercial banks, urban commercial banks, development and policy banks, private banks, rural credit cooperatives (including rural credit unions), rural commercial banks, and foreign-invested banks and their branches.

By the end of 2018, there had been a total of 4,588 depository banking institutions in China, including 1 development financial institution, 2 policy banks, 6 large

[1] The monetary authorities refer to the PBoC and SAFE while the regulatory authorities include the CBRC, CSRC and CIRC, of which the CBRC and CIRC merged into the CBIRC in April 2018.

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state-owned commercial banks, 12 national joint-stock commercial banks, 134 urban commercial banks, 41 foreign-invested banks as a legal entity, 1,427 rural commercial banks, 71 rural cooperative banks, 812 rural credit cooperatives, 1 housing savings bank, 1,616 village and township banks, 45 rural mutual fund cooperatives, 13 loan companies, and 17 private banks. Altogether, these depository banking institutions held assets totaling RMB268.24 trillion, up 6.27% year on year, and took on liabilities totaling RMB246.58 trillion, a year-on-year increase of 5.89%.

Non-depository banking institutions refer to trust companies, asset management companies, financial companies affiliated to enterprise groups, financial leasing companies, auto finance companies, money brokerage companies, consumer finance companies, and representative offices of overseas non-banking institutions in China established with the approval of the CBRC. The bulk of financial institutions of this sort raised funds by issuing stocks and bonds, establishing trust, taking out insurance or otherwise, and leveraged raised funds to make long-term investments.

Among non-depository banking institutions in China at the end of 2019, there were a total of 68 trust companies, 4 state-owned asset management companies, 54 local asset management companies, and hundreds of asset management companies; 73 financial leasing companies; 253 financial companies affiliated to enterprise groups; 25 auto finance companies; 5 money brokerage companies; and 23 consumer finance companies.

2.1.2 Securities Intermediaries

Securities institutions refer to financial institutions which are regulated by the CSRC and mainly engage in the investment service business, including stock exchanges, securities companies (investment banks), securities investment fund management companies, futures companies, investment consulting companies, securities clearing corporations, credit rating companies, credit reference companies, among others.

Nowadays, there are three national exchanges in China, namely Shanghai Stock Exchange, Shenzhen Stock Exchange, and the National Equities Exchange and Quotations (NEEQ or New Three Board) established in September 2012. On November 5, 2018, the Sci-Tech Innovation Board (SSE STAR Market) was set up for piloting a registration system. Besides, there are also four other futures exchanges, namely Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, and China Financial Futures Exchange.

As of the end of 2018, there were 131 securities companies (investment banks), 120 securities investment fund management companies, 149 futures companies, 9 credit rating companies, and 19 QFII custodian banks established in China.

As of the end of 2019, there were a total of 4,419 financial institutions which had joined the Asset Management Association of China (AMAC) as members, including self-regulated fund management companies and their subsidiaries, securities companies and their subsidiaries, futures companies and their subsidiaries, private funds; and asset managers, among others.

2.1.3 Insurance Intermediaries

Insurance institutions refer to financial intermediaries, including insurance companies and social security agencies, which were regulated by the former CIRC and mainly engage in the insurance service business.

Shanghai Insurance Exchange (SHIE) was established with approval in November 2015, and it officially opened for business on June 12, 2016. With its registered address in the Shanghai Free Trade Zone and directly under the administration by the CBIRC, the SHIE mainly provided a trading platform for insurance, reinsurance and insurance assets, which was supported by an integrated one-stop service system integrating account management, fund settlement, information disclosure, market consulting, operational system, and data management.

As of the end of 2018, China's insurance industry held assets totaling RMB18.33 trillion, including RMB2.35 trillion for property insurance companies, RMB14.61 trillion for personal insurance companies, and RMB364,979 million for reinsurance companies. Insurance density and penetration stood at RMB2, 724 and 4.22% respectively, which were far below the world average level over the same period.[2]

As of the end of June 2019, there were a total of 236 insurance companies in China, including 12 insurance groups, 1 export credit insurance company, 87 property insurance companies, 81 life insurance companies, 8 endowment insurance companies, 7 health insurance companies, 11 reinsurance companies, 26 asset management companies, and 3 other companies (rural mutual insurance cooperatives). Besides, there were also 2,652 specialized insurance intermediaries, including 5 insurance intermediary groups, 1,769 specialized insurance agencies, 497 insurance brokerage companies, and 381 insurance surveyors and adjusters companies.

As of the end of October 2019, foreign companies set up 59 foreign-funded insurance companies, 131 representative offices and 18 specialized insurance intermediaries in China.

2.1.4 Other Non-banking Institutions

Non-banking financial intermediaries included securities depository and clearing institutions, financial holding companies, private fund management companies, investment consulting companies, among others.

National quasi-securities depository and clearing institutions in China included China Central Depository and Clearing Co., Ltd. (1996, "CCDC"), China Securities Depository and Clearing Co., Ltd. (2001, "CSDC"), and the SHCH established with approval in 2009.

Financial holding companies (FHC) refer to financial institutions that invest in and have holding subsidiaries in two or more industries (e.g. banking, securities, and

[2] Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2018, China Financial Publishing House, 2019, p. 42.

insurance), without conducting the financial business themselves. There were mainly six types of FHCs including central financial holding companies or other financial holding companies.

First, financial holding groups, which were established with the approval of the State Council to support the opening up and economic development of the country, with large non-financial enterprise groups acting as controlling shareholders. Examples of such financial holding groups included CITIC International Financial Holdings Limited, China Galaxy Financial Holding Co. Ltd. and China Everbright Financial Holding Company affiliated to CITIC Group, Central Huijin Investment Ltd. or China Everbright Group respectively.

Second, asset management companies, which were set up by parent companies of central enterprise groups to specialize in managing the financial business of these groups. Examples of such asset management companies included China Merchants Finance Holding Co., Ltd., State Grid Yingda International Holdings Group Co., Ltd., and Huaneng Capital Service Co., Ltd. set up by China Merchants Group, State Grid Corporation of China, and China Huaneng Group Co., Ltd.

Third, financial institutions with finance as their main business are classified into wholly-owned or joint-venture financial holding companies, including BOC International Holdings Co., Ltd., China International Capital Corporation Limited, Industrial and Commercial East Asia Finance Holdings Ltd, and Ping An Insurance Company.

Fourth, financial holding companies established by private enterprises and listed companies, including large financial holding groups set up by Tomorrow Holding Co., Ltd., Anbound Group, Fosun International Limited, HNA Group, and Evergrande Group.

Fifth, integrated asset investment and management companies which were established with the approval of local governments to co-control local financial institutions such as banks, securities companies and insurance companies, including Tianjin Teda Group Co., Ltd., Shanghai International Group, and Beijing Financial Holdings Group.

Sixth, financial holding groups set up by Internet giants such as Alibaba, Tencent, Suning Commerce Group Co., Ltd. (today's Suning.com), and Jingdong Group Co., Ltd. after they invested in the financial sector.

In recent years, private funds in China have kept the irresistible momentum going. As of the end of 2018, there were a total of 24,448 private investment fund managers, and 74,629 private investment funds with RMB12.71 trillion of assets registered with the AMAC.

As of the end of 2019, there were a total of 84 securities investment consulting companies, and 9 securities rating companies and credit rating companies in the country.

2.2 Depository Banking Institutions: The Mainstay of Financial Markets

After seventy years of development, there had been a total of 4,588 depository banking institutions established in China as major participants in China's financial market by the end of 2019. Through operating in different sub-sectors and catering for different customers' demand, they constituted a sophisticated monetary and indirect financing system.

2.2.1 State-Owned Commercial Banks: Restructuring and Metamorphosis

From 1949 to 1978, there was no commercial financial institution in a real sense in China's financial industry. In a monolithic financial system, the PBoC concurrently performed dual functions and it both served as savings institution and financial regulator.

After the PBoC commenced to exercise its functions as China's central bank in 1983, the ICBC, ABC, BOC and CCB were designated as state-owned specialized banks for providing financial services for state-owned enterprises. In 1995, state-owned specialized banks in China were called upon to reorganize themselves into wholly state-owned commercial banks, marking the initiation of their corporate, commercialized and market-oriented reform and restructuring. In this way, existing maladies such as serious capital shortage, high non-performing loan ratio, and unsound internal management system had been basically resolved by 2001.

From 2002 to 2010, wholly state-owned commercial banks embarked on carrying out a joint-stock system reform and going public, with the BOC and CCB being designated as banks for pilot joint-stock reform. By the end of 2004, the BOC and CCB had basically completed their joint-stock reforms, with their capital adequacy ratios rising to 10.04% and 11.9% respectively, and both banks had established a relatively standardized corporate governance structure.[3]

On October 27, 2005, the CCB issued H shares for trading in Hong Kong. On September 25, 2007, it got listed for trading A shares on the Shanghai Stock Exchange. In June and July 2006, the BOC successively issued stocks for trading on the Hong Kong Exchanges and Clearing Limited and the Shanghai Stock Exchange in the form of H+ A shares.

In 2004, the BOCOM brought in overseas strategic investors. In June 2005, it went public on the Hong Kong Exchanges and Clearing Limited, becoming the first commercial bank from China to publicly issue shares overseas. In May 2007, the BOCOM successfully got listed on the Shanghai Stock Exchange (A-share).

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[3] Office of the Leading Group on the Pilot Joint-Stock System Reform of Wholly State-Owned Commercial Banks: Accelerating the Joint Stock Reform of Wholly State-owned Commercial Banks, *China Finance*, Issue 24, 2004.

In October 2005, the ICBC won approval for concurrently getting listed in Shanghai and Hong Kong in the form of "A + H" shares. On October 28, 2005, it officially made IPO.

In October 2008, the ABC was given the sanction for carrying out a joint-stock system reform. In January, 2009, the Agricultural Bank of China Co., Ltd. was officially inaugurated, and it successively got listed on the Shanghai Stock Exchange (A share) on July 15, 2010 and on the Hong Kong Exchanges and Clearing Limited (H share) on July 16, 2010.

By the end of 2010, all the large five wholly state-owned commercial banks in China all had gone public for trading and they had constituted a state-holding publicly listed banking sector in the stock market. From 2014 onwards, state-owned commercial banks commenced to explore a mixed ownership reform.

Through joint-stock system reform and restructuring, state-owned commercial banks have metamorphosed from problematic banks on the brink of technical bankruptcy into modern commercial banks with growing international influence and competitiveness, becoming the backbone in the global banking industry. Most notably, 136 Chinese banks were on the shortlist of Global Top 1,000 Banks 2019, with the ICBC, CCB, ABC and BOC ranking in the top four.

2.2.2 Joint-Stock Commercial Banks: Characteristic Financial Institutions

National joint-stock commercial banks constituted an important part of depository banking institutions in China. From 1986 to 2012, there were a total of twelve national joint-stock banks successively established with approval, including the BOCOM established in 1986; China Merchants Bank, CITIC Industrial Bank, Yantai Housing Savings Bank (renamed Hengfeng Bank in 2003), and Shenzhen Development Bank (renamed Ping An Bank Co., Ltd. in 2012) established in 1987; Fujian Industrial Bank[4] and Guangdong Development Bank (renamed China Guangfa Bank in 2011) established in 1988; China Everbright Bank, Huaxia Bank, and Shanghai Pudong Development Bank established in 1992; Zhejiang Commercial Bank (renamed China Zheshang Bank in 2004) established in 1993, and China Minsheng Bank established in 1996; and China Bohai Bank Co., Ltd. which was established in Tianjin with approval in December 2005 and officially operated in business in February 2006.

National joint-stock commercial banks are a product of China's market economy reform and financial enterprises' joint-stock system restructuring. For example, China Merchants Bank, CITIC Industrial Bank, and China Everbright Bank are the first three joint-stock banks set up by state-owned enterprises in the country. As the first commercial bank to go public in China, Shenzhen Development Bank made its initial public offering of common shares denominated in RMB to the public through

[4] In 2003, Fujian Industrial bank was renamed Industrial Bank. On February 5, 2007, it was officially listed for trading on the Shanghai Stock Exchange.

free subscriptions on May 10, 1987, and it officially announced its establishment on December 22, 1987. On September 22, 2006, China Merchants Bank got listed on the Hong Kong Exchanges and Clearing Limited. In January 1997, China Everbright Bank completed its joint-stock system reform and got listed for trading A shares on the Shanghai Stock Exchange on August 19, 2010.

There are many examples of joint-stock system reform banks. As China's first commercial bank set up by an industrial company, Huaxia Bank completed a joint-stock system reform on April 10, 1996 and it officially went public in the A-share market on July 21, 2003, becoming the fifth listed commercial bank in China. Another example is Shanghai Pudong Development Bank Co., Ltd., which officially made IPO in the A-share market in September 1999.

Here we will give other examples, China Zheshang Bank, a privately owned Sino-foreign joint venture, has twenty-one private enterprises among its twenty-two shareholders, and 85.71% of its capital comes from private resources. Founded in 1996, China Minsheng Bank is China's first joint-stock commercial bank established mainly by non-state-owned private enterprises under the auspice of the All-China Federation of Industry and Commerce, reforming the original equity shareholdings of commercial banks. Subsequently, it was officially listed in the A-share market on December 19, 2000 and in the Hong Kong H-share market on November 26, 2009.

By centering around China's national development strategies, twelve national joint-stock commercial banks were poised to serve the private sector, micro, small and medium-sized enterprises, as well as agriculture, rural areas and farmers in support of the development of the real economy. With a view to pursuing a differentiated, personalized and specialized development policy, they were committed to innovating and developing green finance, consumer finance, industrial chain finance and fintech, striving to grow into retail banks with their respective characteristics. Specifically, Bohai Bank continued to intensify the support for green, circular and low-carbon economies, and proactively penetrated into advanced manufacturing industry, strategically emerging industries, modern service industry, cultural and creative industries and other emerging credit loan markets. Besides, industrial chain finance provided by China Minsheng Bank, platform finance provided by Huaxia Bank, and integrated financial services provided by Ping An Bank all had their own distinctive characteristics.

2.2.3 Urban Commercial Banks: Citizens' Banks and Enterprise-Run Banks

The predecessor of urban commercial banks is urban credit cooperative which emerged in China in the late 1970s at first. In the 1980s, urban credit cooperatives were established in cities across China and they grew into specialized financial institutions for tackling "the difficulties in account opening, settlement, deposit and borrowing" facing local enterprises at the sub-district level, especially individual businesses. According to incomplete statistics, there were more than 3,409 urban credit cooperatives established in the country. In the 1990s, urban credit cooperatives were booming. As of the end of 1995, the number of urban commercial banks increased to more than 5,200 in the country.

During their business operations, urban credit cooperatives were nevertheless run as small local commercial banks due to their evading regulation, and deviating from the basic principles of the cooperative system. With an average asset size of RMB61 million, the bulk of urban credit cooperatives were controlled by local governments, and they faced various operational problems and risks such as too low capital ratio, low non-performing loan ratio, insufficient liquidity, and rigid operational mechanisms. All these maladies made it imperative to overhaul and reform urban credit cooperatives.

In 1994, the Chinese government decided to reorganize existing urban credit cooperatives into urban cooperative banks. The scheme was roughly formulated as follows: To take the city as a basic unit, and merge all the commercialized urban credit cooperatives in a city into a commercial bank to serve for promoting local economic development. In 1995, the urban credit cooperative reorganization work was up-scaled nationwide.

Urban credit cooperatives in five cities such as Beijing, Tianjin and Shanghai were selected for pilot reorganization into urban cooperative banks. In July 1995, Shenzhen Municipality took the initiative to set up the first urban cooperative commercial bank in China. By the end of 1997, the schemes for establishing cooperative banks in 152 cities had been approved by the State Council, with 71 of the banks wining the approval for opening for business operation and 15 for going ahead with the preparation for establishment.

In 1998, all the urban cooperative banks in China were renamed urban commercial banks, followed by their capital restructuring, transformation and consolidation work. From 1999 to 2001, the Bank of Shanghai, the Bank of Nanjing and the Bank of Beijing successively brought in overseas strategic investors. In July 2001, Shanghai Pudong Development Bank announced its successful acquisition of Zhejiang Wenzhou Ruifeng Urban Credit Cooperative; and Fujian Industrial Bank successfully acquired 20-odd business outlets affiliated to Foshan Urban Commercial Bank and reorganized all of them into its own branches.

As of the end of 2002, there were a total of 112 urban commercial banks in China, with the assets totaling RMB1, 302.94 billion and a deposit balance of RMB652, 391 million. However, their outstanding non-performing loan balance reached RMB107, 811 million, with a non-performing loan ratio of 16.53%. Additionally, cumulative losses in the whole industry stood at RMB5, 597 million, with fifty banks sustaining losses over the years, accounting for 44% of all the urban commercial banks in the country.

From 2004 to 2006, urban commercial banks carried out reform around privatization and cross-regional operation. In August 2004, Zhejiang Commercial Bank was founded, with capital contributions mainly from private resources. Thirteen in its fifteen shareholders were well-known private enterprises in Zhejiang province, and altogether they made up 85% of shareholders' equity. Nanhua Bank, Jiangyin

Commercial Bank, Shenzhen Minhua Bank, Bank of Ruifeng, and Great Wall Bank in Xi'an city all realized their privatization as urban commercial banks by bringing in private capital.

After the reform and reorganization, urban commercial banks were allowed to carry out cross-regional operations in September 2004. After a merger between six urban commercial banks and seven urban credit cooperatives in Anhui province, Huishang Bank was established in December 2005, setting a precedent for establishing provincial-level regional banks through the reform and reorganization of urban commercial banks. At the end of 2010, Huishang Bank saw its asset size reach RMB208, 976 million, with branches set up across Anhui province.

Urban commercial banks also explored new models for reforming local banking corporations. In January 2007, ten commercial banks in Jiangsu province merged into the Bank of Jiangsu. In the same year, the Bank of Ningbo, the Bank of Nanjing, and the Bank of Beijing went public in the A-share market. Following the 2008 financial crisis, urban commercial banks were called upon to cease going public through a joint-stock system reform. It was not until 2016 that relevant lax policies were imposed.

In 2009, urban commercial banks made a new attempt to carry out the reform for integrating industry and finance. In April, 2009, Karamay City Commercial Bank was renamed the Bank of Kunlun, and reorganized into a urban commercial bank characterized by industry-finance integration by using funds from China National Petroleum Corporation. In 2010, its total assets jumped to RMB82, 604 million, setting what was known as the "Kunlun big leap pace model" among urban commercial banks.

Following their reform and reorganization, urban commercial banks were well positioned to serve for supporting local economic development, small and medium-sized enterprises, and citizens, and develop into cross-regional citizen banks and banks run by small and medium-sized enterprises, albeit with their own characteristics. For instance, micro and small credit loans made up more than 90% of the lending business of Tailong Urban Commercial Bank, Mintai Urban Commercial Bank and Taizhou Urban Commercial Bank in Taizhou city of Jiangsu province, and such loans carried a risk weight of 75%. In this way, such banks created a model of micro and small financial services. By employing a microcredit loan business development model, Harbin Commercial Bank was hailed as "China's Yunus" in the industry. In 2011, it granted loans totaling RMB14.5 billion to 7,000 small enterprises.

As of the end of 2019, there were a total of 134 urban commercial banks in China. With diversified equity structures, these banks generally established a modern financial enterprise system and operated in line with market-oriented and commercialized business philosophy, providing convenient financial services in support of local economic development, especially the development of small and medium-sized enterprises in cities.

2.2.4 Rural Finance: Connecting Urban and Rural Areas and Serving Agriculture, Rural Areas and Farmers

Likewise China's dual economic structure, a dual structure also existed in the financial sector. A financial system mainly consisting of the ABC, rural credit cooperatives, and village and township banks was established to connect urban and rural areas, and serve for agriculture, rural areas and farmers.

First, the ABC, with the Agricultural Cooperative Bank of China established in 1951 as its predecessor, which was oriented towards "agriculture, rural areas and farmers" and undertook a mission of serving urban and rural areas. Following its dissolution twice, the ABC was restored in 1955 and 1963 respectively and merged into the PBoC twice in 1957 and 1965. On February 23, 1979, the ABC was restored again as a national specialized bank in charge of leading and regulating national rural credit cooperatives.

In December 1993, the ABC commenced its reorganization into a state-owned commercial bank. In April 1994, it handed over its major policy functions to the newly established Agricultural Development Bank of China. In August 1996, it discontinued its administrative relationship with rural credit cooperatives and ceased its related leadership and administration. In July 1999, it divested its non-performing assets to the newly established China Great Wall Asset Management Co., Ltd. in preparation for carrying out a commercialized and joint-stock system reform.

From 2004 to 2010, the ABC underwent six years of joint-stock system reform in preparation for its IPO. It was not until July 15 and 16, 2010 when it finally got listed in Shanghai and Hong Kong in the form of A + H shares, in what was the then biggest size of IPO in the world.

For five consecutive years starting from 2014, the FSB included the ABC in the List of Global Systematically Important Banks (G-SIBs).[5] In 2019, the ABC rose to the third place on the G-SIBs list. Despite all its great strides in comprehensive commercial operations, the ABC has persistently put serving rural revitalization and poverty alleviation at the top agenda of all its work. Additionally, it has made constant efforts to provide financial services in support of the county economy and render its services in a more inclusive and specialized manner.

Second, rural credit cooperatives, which gained a firm foothold in rural areas. Generally speaking, there were two kinds of rural credit cooperatives in China. One is rural credit cooperatives which stemmed from the PBoC's reorganization of business outlets in rural areas in the early 1950s. Prior to 1979, rural credit cooperatives were basically administered by the PBoC. After a spell of administration by the ABC, they came under the administration of the PBoC again in 1996.

The other is rural credit cooperatives newly established in the 1980s. In the mid-1980s, there were more than 50,000 newly established rural credit cooperatives of this sort in China.[6] Nevertheless, this kind of rural credit cooperatives departed from

[5] The Agricultural Bank of China 2016 Annual Report [R], December 31, 2018, p. 1.

[6] Li Yang, Wang Guoguang et al.: *Thirty Years of Financial Reform and Opening up in China*, Economy and Management Publishing House, 2008, pp. 1–2.

their original purpose of serving agricultural production and improving farmers' livelihoods due to their galloping ahead. Instead of being attuned to the needs of developing the rural commodity economy, they increasingly aligned themselves with a bank business pattern in terms of personnel, business scope and financial management, and progressively developed into "government-run" financial institutions. In the end, they have lost their edge as financial cooperative organizations.

From the 1980s to 2005, the regulatory authorities rolled out three major reforms, and launched restructuring campaigns against rural credit cooperatives.

From 1983 to 1987, the first reform was spearheaded by the ABC, with a focus on reforming the business management systems of rural credit cooperatives and reorganizing them into cooperative financial organizations to serve the masses. In 1983, a pilot reform was carried out among 8,755 selected rural credit cooperatives across China. In August 1984, the reform was up-scaled nationwide. As such, the reform has achieved the desired effect by coordinating the relationships between the ABC and rural credit cooperatives, and providing financial services for the masses in a more democratic and flexible manner.

From 1996 to 1999, the second reform was carried out to further coordinate the relationships between the ABC and rural credit cooperatives, and optimize the business management system of rural credit cooperatives. Following the reform, the ABC no longer administered rural credit cooperatives, and therefore this reform was also renowned as "decoupling reform". From September 1996 onwards, there were more than 50,000 rural credit cooperatives and 2,400 county rural credit unions which had been decoupled from the ABC, while the PBoC reinforced its regulation over rural credit cooperatives. From 1999 onwards, the PBoC progressively established prefectural (urban) rural credit unions to administer county rural credit unions.

Despite accomplishments achieved by the two reforms, rural credit cooperatives have still put in poor performance. From 1994 to 2003, they sustained losses for ten consecutive years, running such a huge deficit of RMB5.8 billion in 2002 alone, and their historical losses amounted to RMB150 billion. At the end of 2002, rural credit cooperatives slipped into an overall deficit of RMB330 billion nationwide and the capital adequacy ratio equaled to −8.45%, with non-performing loans accounting for 36.93% of the total.[7]

From 2003 to 2005, the government initiated the reform of rural credit cooperatives for the third time to effectuate corporate reorganization, commercialized restructuring, and management system optimization. Specifically speaking, pilot reform was carried out for the first time in eight provinces and cities such as Jilin province, Shandong province, Jiangxi province, Zhejiang province, Jiangsu province, Shaanxi province, Guizhou province and Chongqing city, and such a reform was up-scaled to 29 provinces, autonomous regions, and municipalities directly under the central government in 2005. As such, supporting policies have been progressively pursued, and substantial headways have been made in relieving and lifting historical burdens.

[7] *A Chronicle of Major Events in China's Financial Reform and Opening up*, China Financial Publishing House, 2008, p. 860.

In 2003, the PBoC decided to disband prefectural (urban) rural credit unions in a bid to hand over rural credit cooperatives to the provincial governments for administration. In this way, local governments' administrative functions were preliminarily defined.[8] In other words, the provincial governments successively set up provincial-level rural credit unions to administer county rural credit unions in a hierarchical manner.

The reform has achieved considerable accomplishments. For the first time, rural credit cooperatives in the country realized profits as a whole in 2004. Altogether, there were 26,245 rural credit cooperatives that had reaped profits.[9] In June 2005, the capital adequacy ratio of rural credit cooperatives reached 5.89%, while their actual non-performing loan ratio fell to 21.23%. As of the end of 2005, the PBoC arranged for the issuance of special bills totaling RMB159.9 billion in eight tranches in 2,263 counties (cities) in exchange for the non-performing loans and historical deficits of rural credit cooperatives. According to related statistics, it established a total of 72 rural banking financial institutions and 519 county (urban) financial institutions as a unitary legal entity, notching up a success in reforming the property right system and shifting the business model and the management mechanism.

Third, newly established rural commercial banks. Following the aforementioned decoupling reform, rural credit cooperatives were allowed to be reorganized into different legal entities which were positioned as local joint-stock financial institutions, including rural commercial banks, rural cooperative banks and rural credit cooperatives. It is noteworthy that the bulk of rural commercial banks were derived from rural credit unions in economically developed counties and cities and they became the mainstay of rural finance in developed regions.

In July 2000, the Jiangsu Provincial Government won the approval for reforming its rural credit cooperatives and piloting the establishment of rural commercial banks in Jiangyin city, Changshu city, and Zhangjiagang city. On November 28, 2001, Changshu Rural Commercial Bank and Zhangjiagang Rural Commercial Bank were established. On December 6, 2001, Jiangyin Rural Commercial Bank was officially inaugurated. The administrative powers of rural credit cooperatives and rural commercial banks were conferred on a provincial credit unions set up by the Jiangsu Provincial Government.

In 2004, the pilot reform was rolled out in more regions in China. On May 24, 2004, Guizhou Huaxi Rural Cooperative Bank was established with approval, becoming China's first rural cooperative bank established following the joint-stock system reform of rural credit cooperatives. On August 17, 2004, the pilot scheme for establishing rural cooperative banks was up-scaled from 8 to 29 provinces, cities or autonomous regions (excluding Hainan and Xizang), covering the bulk of regions in the country. At the end of 2005, there were a total of twelve rural commercial banks

[8] The Financial Stability Analysis Group of the PBoC: *China Financial Stability Report 2016*, China Financial Publishing House, 2007, p. 4.

[9] Wu Xiaoling (eds): *A Chronicle of Major Events in China's Financial Reform and Opening up*, China Financial Publishing House, 2008, p. 766.

established in China. As of the end of 2016, there were 1,114 rural commercial banks with a total asset of RMB20.3 trillion in China.

Among newly established rural commercial banks, Changshu Rural Commercial Bank, Zhangjiagang Rural Commercial Bank, and Jiangyin Rural Commercial Bank were operated on a large scale with an irresistible development momentum.

In 2019, China's rural financial institution system for connecting urban and rural areas to serve agriculture, rural areas and farmers basically took shape, involving 1,427 rural commercial banks, 71 rural cooperative banks, 812 rural credit cooperatives, 1,616 village and township banks, and 45 rural mutual fund cooperatives.

2.2.5 Policy-Oriented Financial Institutions: Supporting National Strategies

From 1949 to 1978, the PBoC dealt in major policy financial business. It is worth noting that such policy financial business operations were mainly conducted by the ICBC, ABC, BOC and CCB from 1978 to 1993.

In 1994, three policy financial institutions including China Development Bank, the Export–Import Bank of China, and the Agricultural Development Bank of China were successively set up to conduct the policy financial business operations which were previously undertaken by specialized banks. In this way, maladies such as non-separation of policy and commercial finance and dual functions performed by state-owned specialized banks have been tackled, and a regulatory regime of state-owned specialized banks characterized by integration of administrative functions with enterprise has been shifted.

On March 17, 1994, China Development Bank was established with approval in Beijing. As a legal entity with a registered capital of RMB50 billion, China Development Bank was discharged with the tasks of supporting the development of the national economy and improving the livelihood of the people. In the early stages, China Development Bank mainly conducted the loan and subsidized loan business for state key policy construction projects (including infrastructure and technological transformation projects), as well as administered the CCB, and regulated national investment and other business.

In December 2008, China Development Bank was reorganized into China Development Bank Co., Ltd., completing its restructuring from a policy financial institution to a joint-stock bank. In March 2015, it was oriented towards a development financial institution with an independent legal entity status. With a mission of "enhancing comprehensive national competitiveness and improving people's livelihood", China Development Bank was committed to rendering support for the development of key and backward sectors in the Chinese economy.

As of the end of 2018, China Development Bank held assets totaling RMB16.2 trillion, had an outstanding loan balance of RMB 11.68 trillion, and reaped a net profit of RMB112.1 billion, with a capital adequacy ratio of 11.81%. The outstanding loan balance was expressed as a proportion in different industries as follows: Railway construction occupied 7.28%; highway construction 16.14%; electric power 8.23%; public infrastructure 11.36%; shanty area renovation 27.4%; strategically emerging industries 10.13%; and other sectors19.47%.[10]

The Export–Import Bank of China was established with approval in Beijing on July 1, 1994. With a registered capital of RMB3.3 billion invested by the state, it is a state-owned policy bank with an independent legal entity status and directly under the leadership of the State Council. The Export–Import Bank of China is committed to promoting international economic cooperation, supporting China's economic development, and facilitating the construction of a harmonious international community.

The Export–Import Bank of China mainly engaged in cross-border financing for the import and export of large mechanical and electrical equipment, and its funds mainly came from special fiscal funds, financial bonds issued to financial institutions, and other resources. Backed by the credit of the Chinese government, the bank played a proactive role in stabilizing growth, adjusting structure, supporting the development of foreign trade, and pursuing the "going global" strategy.

As of the end of 2018, the Export–Import Bank of China held assets totaling RMB4, 193.7 billion, and granted foreign trade loans of RMB1, 076,528 million and cross-border investment loans of RMB272, 565 million. Besides, it also granted RMB 886,178 million in loans for supporting international cooperation and RMB1, 139,899 million in loans for supporting China's opening to the outside world.[11]

On November 8, 1994, the Agricultural Development Bank of China (ADBC) was established with approval in Beijing. With a registered capital of RMB57 billion, it was the sole agricultural policy bank with an independent legal entity status and directly under the leadership of the State Council in China, taking over the agricultural policy lending business which was previously conducted by the ABC and ICBC. The ADBC was discharged with tasks such as raising funds from the market on government credit to support agriculture, concentrating funds on supporting the development of agriculture, rural areas and farmers, and playing a supporting role in pursuing national strategies.

In 1998, the ADBC mainly specialized in granting policy loans for agricultural development, national grain, cotton and oil reserves and the contractual purchase of agricultural by-products. Meanwhile, it also acted as an agency in charge of the appropriation and oversight of agriculture-supporting fiscal funds.

In 2010, the ADBC developed a "three-pronged" development structure by providing credit facilities for purchasing grain, cotton and oil as main business, supplemented by loans for agricultural industrialization and agricultural and rural medium- and long-term credit loans. In 2011, it commenced to explore diversified

[10] China Development Bank Co., Ltd.: 2018 Annual Report, December 31, 2017, p. 7.

[11] Import-Export Bank of China Co., Ltd.: 2018 Annual Report [R], December 31, 2018. pp. 8–9 and 17.

operations and decided to make policy investments in agriculture, thus progressively establishing a commercialized and integrated business model.

The ADBC has persistently pursued national strategies, energetically served for agriculture, rural areas and farmers, and proactively followed the laws of banking business management. All in a word, it has spared no efforts to render serves in support of food safety, poverty alleviation, agricultural modernization, and integrated urban and rural development, as well as key national development strategies. As of the end of 2017, the ADBC held assets totaling RMB6, 221,499 million, had an outstanding loan balance of RMB4, 556.04 billion, and reaped a net profit of RMB17, 118 million.

All the aforesaid three development and policy banks were in a position to provide banking services in support of China's national strategies for promoting economic development in different sectors.

2.3 Non-depository Banking Institutions: Specializing in the Ancillary Business

Non-depository banking institutions refer to trust companies, asset management companies, financial companies affiliated to enterprise groups, financial leasing companies, auto finance companies, money brokerage companies, consumer finance companies, and other financial institutions, which constitute an part of the financial institutional system. In the different financial sectors, they are committed to serving and catering for diversified customer needs.

2.3.1 Trust Companies: Entrusted to Manage Wealth for Customers

Nowadays, the trust industry is China's second largest financial sector following the banking sector. From 1949 to the late 1950s, China's trust industry underwent the twists and turns of takeover, transformation and suspension. Until 1978, there was no any trust institution in the country at all. At the proposal of Yiren Rong, China International Trust and Investment Corporation was officially established with approval in October 1979.

Trust and investment companies emerged as a result of the demand stimulation and thrust of entrepreneurs and the encouragement and support of the government. As of the end of 1982, there were a total of more than 620 trust institutions in China, of which 568 were trust divisions or companies established within the banking system, including 186 set up by the PBoC, 266 by the CCB, 96 by the BOC, and 20-odd by the ABC. Altogether, they made up about 90% of all the trust and investment companies in the country in those days.

Due to demand stimulation and governmental support, the trust industry was on a rampant growth throughout the 1980s and its disorderly development disrupted the normal financial order, prompting the regulatory authorities to launch three major campaigns to overhaul the industry. Nevertheless, these campaigns, far from achieving the desired effect, have only attained the basic targets of "separating banks from trust business operations".

After Xiaoping Deng delivered his reform speech during his South China Tour in 1992, economical "overheating" re-surfaced across the country, offering new development opportunities to trust and investment companies and further fueling an already "overheated" economy. In 1993, the PBoC decided to launch the campaign to overhaul the trust industry for the fourth time, with the emphasis placed on "separating banks from trust business operations" and "dissolving and consolidating trust and investment companies".

In line with the business philosophy of separating banks from trust business operations as set forth in the Commercial Bank Law promulgated in 1995, the PBoC introduced and operated an exit mechanism, and preliminarily decoupled the ICBC and CCB from their trust companies. Meanwhile, it also called upon other banks to decouple themselves from all of their trust and investment companies, or reorganized them into their branches which were only allowed to engage in the banking business.

In October 1995, the PBoC temporarily took over the insolvent Bank of China Group Trust and Investment Co., Ltd. for illegal operation reasons, which was eventually acquired by Guangdong Development Bank. As of the end of 1996, the number of trust and investment companies with an independent legal entity status in China was reduced to 244. In 1997, the PBoC shut down China Rural Development Trust Investment Company and China New Technology Venture Capital Company, and closed and disposed of Guangdong International Trust Investment Company in accordance with market-oriented principles and legal procedures.

Following the overhaul of "separating banks from trust business operations", the remaining trust companies all suffered from such maladies as poor asset quality and payment difficulty, and they were prone to trigger systematic risks in the whole trust industry.

In February 1999, the PBoC decided to launch the fifth and the longest campaign to overhaul the trust industry, with a focus on "separating trust companies from securities operations". With the aim of resuming the original functions of the trust industry, the PBoC designated trust and investment companies to act as an agent or trustee to provide a wide range of services related to investment and asset management on behalf of a trust and it also defined their three main business of fund trust, property trust, and real estate trust. These efforts were reinforced to reflect the characteristics of the trust industry such as "managing wealth for customers" and all the trust companies were required to cease operating in the securities brokerage and stock underwriting business.

During the overhaul campaign, trust and investment companies set up by asset management companies such as China Huarong Asset Management Co., Ltd., China Great Wall Asset Management Co., Ltd., China Orient Asset Management Co., Ltd.

and China Cinda Asset Management Co., Ltd. were dissolved with approval. Meanwhile, China Electric Power Finance Co., Ltd. and China Economic Development Trust and Investment Corporation completed reorganization while a good number of well-managed trust and investment companies were retained for re-registration.

Also known as "One Law and Two Measures", China's Trust Law was promulgated in April 2001, the Measures for the Administration of Trust and Investment Companies and the Measures for the Administration of the Fund Trust of Trust and Investment Companies were issued by the PBoC in June 2001 to explicitly define the legal relationship, legal status, and business scope of the trust in China. It was only after the "One Law and Two Measures" took effect that the trust industry has progressively completed its reshaping institutional system according to the law by establishing a standardized corporate system and resuming its original missions of "managing wealth for customers". Thereafter, a modern trust industry emerged in China.

According to "One Law and Two Measures", the regulatory authorities launched the sixth campaign to overhaul the trust industry from 2001 to 2005, with a focus on "separating banks from securities and trust operations". Specifically, trust and investment companies were required to verify their assets and capital and overhaul their business operations according to the law. Among them, some were either disbanded or shut down due to their grave maladies, while those retained or merged must re-register with the PBoC. Meanwhile, trust and investment companies were called upon to reinforce their information disclosure systems and tighten up self-regulation.

The trust industry had eventually completed the separation of "banks from securities and trust operations", and carried out separate operations by the end of 2005 to showcase the specialized nature of the trust industry. In 2006, multiple trust models took shape in China's trust market, including securities investment, equity investment, loan-granting, asset quasi-securitization, trust beneficiary rights, and lease trust.

In 2007, the CBRC launched the seventh campaign to overhaul the trust industry, with a focus on the implementation of a "new trust policy", which explicitly ordered to delete "investment" from the title of trust and Investment Company and alter its title into "trust company" in a unified manner.

The "new trust policy" required all trust companies to complete recapitalization and re-registration. In April 2008, there were a total of 34 trust companies awarded a new license. Following this overhaul, the trust industry was booming, basically resuming its original business of wealth management and proactively switching to the asset management business. As of the end of 2009, there were a total of 54 trust companies in China, which posted an overall revenue of RMB20, 675 million, including RMB9, 065 million or 43.84% from the trust business.

The year 2011 marked another watershed in the development of the trust industry. Prior to 2011, extensive business cooperation between banks and trust companies provided a positive stimulus for promoting the development of the trust industry. From 2011 onwards, the trust industry placed a premium on three more specialized, differentiated and targeted business models, namely individual trusts for conducting the non- bank-trust wealth management cooperation business with high-end financial institutions as core large customers, joint trusts with mid-end qualified individual investors as target customers, and individual trusts for conducting the bank-trust wealth management cooperation business with low-end bank wealth management clients as targeted customers.

As of the end of 2012, there were a total of 66 trust companies in China that managed RMB7.47 trillion of trust assets, and reaped a gross profit of RMB44.14 billion. For the first time, the trust industry outperformed the insurance industry with a total asset of RMB7.35 trillion and became the second largest financial sector in the country, second only to the banking industry.

In 2013, the trust industry switched from specialized service provision to integrated service provision. For instance, CITIC Trust became the largest integrated trust company in China, while China Foreign Economy and Trade Trust Co., Ltd. (FOTIC) and Ping An Trust emerged as typical quasi-integrated trust institutions. From 2015 onwards, trust companies made bold to pioneer in innovating the land and family trust business. For instance, CITIC Trust ventured to conduct the land trust business and has preliminarily accumulated valuable experience in the process. In 2016, trust assets in China passed the RMB20 trillion mark, ushering in a new era.

The year 2017 was hailed as the year of imposing the most rigorous financial regulation in China, with the entire asset management industry coming under unified regulation. Amidst such a backdrop, trust companies leveraged their institutional advantages of acting as a financial institution specializing in the entrusted wealth management business, and proactively reverted to their original functions of providing wealth management products and services for institutional customers and high-end individual customers. By launching diversified trust business to be attuned to the fundamental needs of the real economy, the trust industry has achieved a sustainable and healthy development. By the end of 2018, 68 trust companies in China had managed trust assets totaling RMB22.72 trillion, with an average asset size of RMB333, 842 million per company, 11.14 times the size of that in 2008.

By launching several overhaul campaigns following reform and opening up, China's trust industry has finally metamorphosed from chaos to well-governance, and trust companies have also grown into a kind of well-regulated non-depository banking financial institutions.

2.3.2 *Asset Management Companies: Accomplishing Missions and Effecting Transformation*

As state-owned commercial banks pressed ahead with their reform and disposed of non-performing assets in 1999, the Chinese government decided to establish asset management companies to undertake three major missions, namely to resolve financial risks, to promote the reform and development of state-owned enterprises, and to preserve state-owned assets to the maximum extent possible.

On April 20, 1999, China Cinda Asset Management Co., Ltd. was established with approval as the first asset management company for disposing of the non-performing assets of the CCB. With a registered capital of RMB40 billion and an operational period of ten years, China Huarong Asset Management Corporation, China Great Wall Asset Management Corporation, China Orient Asset Management Company were subsequently established in succession to acquire, manage and dispose of the nearly RMB1.4 trillion of non-performing assets stripped from the ICBC, ABC, BOC and CDB.

By way of acquisition, the four asset management companies stripped RMB1.4 trillion worth of non-performing assets from four large state-owned commercial banks based on their book value from 1999 to 2000. The acquisition funds mainly came from RMB570 billion worth of loans granted by the PBoC to financial institutions, and RMB820 billion of funds raised from the issuance of financial bonds. As required by the PBoC, the four state-owned commercial banks must lower their average non-performing asset ratio to 15% by 2005, with an annual reduction of 3–5%.

To accomplish this daunting task, asset management companies actively explored ways to effectively dispose of non-performing assets (such as debt restructuring, asset restructuring, corporate restructuring, litigation, asset auctions, etc.) and maximize the recovery of non-performing assets. In view of the characteristics of non-performing assets which had been taken over, China Great Wall Asset Management Corporation piloted the injection of private capital into the non-performing asset disposal market in Dalian city in 2000. Specifically, it disposed of non-performing assets with a book value of more than RMB200 million by way of sales by lease in a pilot manner, with 90% of the investment coming from private capital. Meanwhile, it also initiated a cross-sectoral and cross-regional strategic non-performing asset restructuring scheme, involving more than 440 projects topping RMB10 billion. At the end of 2001, China Great Wall Asset Management Corporation launched the biggest non-performing asset auction week campaign in history, in which 60% of the auctioned projects were taken over by private investors, reshaping the ownership structure of enterprises.

However, the non-performing loan ratio of the four large state-owned commercial banks was still as high as 25.4% at the end of 2001, with nearly RMB1 trillion of non-performing assets in urgent need of disposal.

On November 13, 2002, China Orient Asset Management Company assigned RMB4.47 billion worth of creditor's rights it had in 90 projects and 100 enterprises in Shunde district of Foshan city, Guangdong province to domestic investors by way of invitation to treat and open bidding. By exploring a new way to dispose of assets, this assignment was reputed to be No.1 creditor's right assignment in the one-off disposal of non-performing assets by asset management companies in China.

As of the end of 2003, the four asset management companies disposed of RMB509.37 billion of non-performing assets (excluding policy debt-to-equity swaps), recovering a cumulative amount of RMB99.4 billion in cash, with a cash recovery rate of 19.52%.

From 2003 to 2004, the Chinese government established a target assessment accountability system for asset management companies to dispose of non-performing assets, and nudged them in their right commercialized development orientation. Meanwhile, it also granted an approval for adopting various commercial means for disposing of non-performing assets, including allowing asset management companies to use their own capital to invest in treasury bonds, engaging in commercially entrusted and commercial acquisition and disposal of non-performing assets, and conducting securities and other investment banking business. In March 2004, the MoF gave its official sanction for the four asset management companies to conduct three types of new business: commercial acquisition, investment, and agency by agreement. In 2004, the above four asset management companies commenced to acquire the non-performing assets of the BOC, CCB and BOCOM by way of submitting a tender or bidding. In 2005, the ICBC's non-performing assets were disposed of in line with the business philosophy of separation of wholesale and retail.

By the end of 2005, the four asset management companies had disposed of RMB839.75 billion of non-performing assets in aggregate and recovered RMB176.6 billion in cash, with a cash recovery ratio of 21.03%. The remaining non-performing loans of RMB1, 313.36 billion were slated to be disposed of within three years as specified by the government.

In 2006, the four asset management companies made good headways in disposing of non-performing assets by policy-based and market-oriented means. First, they took over RMB1, 393.9 billion of policy-related non-performing loans stripped from four large state-owned commercial banks and China Development Bank, involving more than 2 million enterprises burdened with debts. As such, it attained the cash recovery rate and expenditure rate targets set by the MoF ahead of schedule. Second, they made policy-based debt-to-equity swaps for 1,095 enterprises. Third, they were entrusted with the task of disposing of RMB442.9 billion of non-performing loss loans divested by the BOC, ICBC and CCB. Fourth, they were designated to deal with 22 high-risk financial institutions. Fifth, they made commercial acquisitions of RMB830.5 billion of non-performing doubtful loans granted by the CCB, ICBC, BOC and BOCOM. Sixth, they proactively conducted the commercial investment banking business and delivered a good business performance.[12]

In 2009, the four asset management companies basically fulfilled their non-performing financial asset disposal tasks. In total, they acquired more than RMB2 trillion of non-performing assets stripped from four large state-owned commercial banks, and made debt-to-equity swaps valued at more than RMB300 billion for over 500 medium-sized and large state-owned enterprises. In this way, they have maximized the recovery of state-owned assets, and defused the huge risks in the financial system, making a contribution to promoting banking reform, social stability, extrication of state-owned enterprises from deficits, and local economic development.

[12] Luo Weizhong: Explore Development Pathways of Asset Management Companies with Chinese Characteristics, Financial News, June 23, 2008, p. 8.

With the approaching deadline for the final disposal of non-performing debts and the full liberalization of the financial sector, it was imperative for asset management companies to chart way ahead for a sustainable development. In this regard, there were three options available for them, namely, business model shifts, long-term sustainable operations, and an integrated business model of financial holding company. As early as 2007, asset management companies commenced to explore on how to successfully shift their original business model by making forays into financial services other than non-performing asset disposal.

Firstly, asset management companies shifted their business philosophies and models by proactively seeking business opportunities instead of passively awaiting business allocation as before. Secondly, they took the initiative to shift from the original "wholesale" model of non-performing asset disposal to "refined" means to improve the competitiveness and professionalism of non-performing asset disposal, and strived to maximize the recovery of non-performing assets. Thirdly, they proactively restructured into a financial holding company to maintain their main business of non-performing asset disposal while also operating an investment banking business. In this way, they have grown into an asset management company in a real sense.

China Cinda Asset Management Co., Ltd., China Huarong Asset Management Corporation, China Great Wall Asset Management Corporation, China Orient Asset Management Company all expedited their business model shifts and market-oriented reform. In 2010, China Cinda Asset Management Co., Ltd. won an approval for comprehensively carrying out a joint-stock system reform. Subsequently, it was given the sanction for getting listed on the Hong Kong Exchanges and Clearing Limited in December 2013. In September 2012, Huarong Asset Management Corporation was approved to reorganize itself into a joint-stock limited company and it went public on the Hong Kong Exchanges and Clearing Limited in October 2015. In 2016, China Orient Asset Management Company and China Great Wall Asset Management Corporation both won the approval for reorganizing themselves into a joint-stock limited company respectively. As such, all the four asset management companies have metamorphosed from policy financial institutions to commercial financial institutions by switching from a single specialized business model to a diversified business operation model.

Apart from the aforementioned four state-owned asset management companies, the MoF and the CBRC promulgated relevant provisions in February 2012, allowing each provincial government to establish or authorize a local asset management company to participate in the bulk acquisition and disposal of non-performing assets of financial enterprises in their respective provinces. By October 2014, eight provincial governments and municipalities in Jiangsu province, Zhejiang province, Guangdong povince, Shanghai, Anhui province, Tianjin city, Fujian province and Beijing city all had completed the work of setting up or authorizing a local asset management company in succession. Meanwhile, the provincial governments in other provinces like Shanxi province and Shandong province also had undertaken to set up their respective local asset management companies.

As of the end of 2019, apart from the four state-owned asset management companies, there were also fifty-four local asset management companies and hundreds of other types of asset management companies in China. In a new era, asset management companies may serve as a financial stabilizer, resource optimizer and economic booster.

2.3.3 Financial Companies Affiliated to Enterprise Group: Serving for Enterprises and the Real Economy

Financial companies affiliated to enterprise groups in China emerged in the 1980s as a new means of financing and investment. The first finance company was established in the Shenzhen Special Economic Zone in 1984.

With a view to alleviating fund shortages in the enterprise development, and pursuing the strategy of "large companies and large groups", the PBoC proposed to set up non-banking institutions for serving enterprise groups. In 1987, China Dongfeng Motor Industry Financial Company was established with approval. In the same year, six financial companies affiliated to enterprise group such as Shenzhen Special Economic Zone Development Financial Company and China International Financial Co., Ltd. were set up in the Shenzhen Special Economic Zone. Subsequently, the number of financial companies affiliated to enterprise group increased from 7 to 17, and their total assets rose from RMB1.6 billion to RMB13.4 billion.

In the absence of relevant regulatory regulations promulgated and imposed in those days, there was no any sound existing regulatory regime for regulating the deposits and loans, settlement, bills, guarantee, financial leasing, investment and foreign exchange business operations of financial companies affiliated to enterprise group. Therefore, operations beyond the business scope, serious fund shortage and other maladies occurred from time to time.

In June 1990, the PBoC decided to overhaul financial companies affiliated to enterprise groups, with a focus on addressing such maladies as administrative departments running financial companies affiliated to enterprise group in disguise, financial companies affiliated to enterprise group taking deposits from outside of their enterprise groups, granting loans to external customers and hiking interest rates without authorization, as well as poor management. The approval for establishing new financial companies affiliated to enterprise group were no longer granted until 1991.

In 1991, the State Council decided to select a batch of large enterprise groups to pilot in the establishment of financial companies affiliated to enterprise group, stipulating that the main business of financial companies affiliated to enterprise group was to obtain internal finance for their own enterprise groups. In December, fifty-five qualified large enterprise groups were approved to set up financial companies affiliated to enterprise group in a pilot manner in 10-odd sectors, covering automobile manufacturing, non-ferrous metals, civil aviation, hotel management, steel, energy, textile, electronics, and medicine.

In September 1994, the China National Association of Finance Companies was established as a self-regulatory industry organization for financial companies affiliated to enterprise groups. Meanwhile, the PBoC formulated related administrative measures.

With the support of the government, financial companies affiliated to enterprise group were flourishing. In 1996, the number of financial companies affiliated to enterprise group nationwide increased to sixty-six from fifty-five in 1992, and their assets and gross profits grew to RMB122.56 billion and RMB2, 392 million respectively. In 2000, there was also an increase from seventy-five from sixty-six in 1996, with their assets growing to RMB519.77 billion.

The CBRC was responsible for regulating financial companies affiliated to enterprise group and mandating them to perform centralized fund management and provide financial management services for affiliates of enterprise groups. Meanwhile, it included financial companies affiliated to enterprise group in Class-V assets for regulation, allowing them to carry out the asset securitization business and issue financial bonds. In 2009, the PBoC allowed financial companies affiliated to enterprise group to connect to the national electronic commercial draft system, and selected financial companies affiliated to enterprise group such as Haier Group, SAIC Motor, China Minmetals Corporation and China Power Investment Corporation for piloting online business operations.

In 2011, there were a total of 127 enterprise groups that had set up affiliated financial companies in sectors including petrochemical, electricity, military engineering, automobile, coal, transportation, electronics and electrical appliances, iron and steel, machinery manufacturing, non-ferrous metals, building materials and trade across China, involving state-owned, collective, private and foreign-invested enterprises. As of the end of 2015, the number of financial companies affiliated to enterprise group in China increased to 224. It is noteworthy that they held on- and off-balance sheet assets totaling RMB6.5 trillion, had an annual operating revenue of RMB98, 149 million, and reaped a gross profit of RMB75, 776 million. In practice, financial companies affiliated to enterprise groups are a kind of quasi-banking institutions which mainly serve for enterprise groups, industrial chains, and the real economy. In 2018, financial companies affiliated to enterprise group succeeded in supporting the development of the real economy. In the whole year, they granted loans totaling RMB4.55 trillion, up 13.03% year-on-year, far outpacing the economic growth rate of the country at the time. Specifically speaking, forty-three financial companies affiliated to enterprise group provided consumer credit facilities and buyer credit facilities and conducted the group product financial leasing business for downstream enterprises of industrial chain, benefiting 4, 756 micro, small and medium-sized enterprises. Meanwhile, fifty-four financial companies conducted the industry chain discounting and industry chain factoring business totaling RMB131.8 billion per year for upstream enterprises of the industrial chain, involving 5,287 micro, small and medium-sized enterprises.

As of the end of 2018, there were 253 corporate financial companies affiliated to enterprise group in China, with on- and off- balance sheet assets totaling RMB9.50 trillion, net operating revenues of RMB141.3 billion, and net profits of RMB79, 034 million. Although risk incidents occurred on few financial companies affiliated to enterprise group, the industry still kept the robust momentum going. At the end of 2018, there were 214 or 85% of financial companies affiliated to enterprise group without non-performing assets, with an average non-performing asset ratio and a non-performing loan ratio being 0.46% and 0.96% respectively. Meanwhile, the average capital adequacy ratio of the industry stood at 20.48%, the core tier-1 capital adequacy ratio reached 19.49%, and the provision coverage rate was 292.85%. The average industry-wide capital concentration of financial companies affiliated to enterprise group reached 49.48%,[13] showcasing their strong capacity to pool and control funds.

2.3.4 *Financial Leasing Companies: Equipment Financing Providers*

Financial leasing companies are a product of China's opening to the outside world and bringing in foreign capital. As China's major portal for utilizing foreign capital in the late 1970s, the CITIC is the first company to conduct the international leasing business, and effectively opened up a new channel for leveraging foreign capital.

In the early 1980s, financial leasing was introduced into China as a channel for leveraging foreign capital. The first leasing company is China Orient Leasing Co., Ltd. jointly set up by the CITIC, Beijing Electromechanical Equipment Co., Ltd. and Japan Orient Leasing Co., Ltd. in February 1981. In July 1981, China Leasing Co., Ltd. was established with approval, heralding an emergence of a modern financial leasing industry in China.

With various leasing institutions being set up one after another, the leasing industry was flourishing, their business scope was expanded, and customers came from various industries all over the country in the 1990s. Hit by the 1997 Asian financial crisis, China's financial leasing industry underwent its first crisis, and financial leasing business was slack due to ballooning bank debts in 1999.

In 2000, the financial leasing industry was allowed to raise private capital, which set off a new round of industry-wide merger, reorganization and integration. Founded in 1994, Sichuan Financial Leasing Co., Ltd. (CFL) was successfully reorganized into a compliant financial leasing company in 2000 by using the funds injected by private enterprises including Ningbo Tuopu Group Co., Ltd., Chengdu Commercial Bank and PKU Founder Group. Following the reorganization, the CFL saw its capital increase to RMB500 million.

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[13] http://www.cnafc.org/cnafc/front/detail.action?id=234B1082FE4C4D87B21D7B0DECE381D1. China National Association of Financial Company: China Enterprise Group Financial Company Industry Development Report (2019) [EB/OL], August 1, 2019, http://www.cnafc.org/cnafc/front/detail.action?id=234B1082FE4C4D87B21D7B0DECE381D1.

In terms of their approval and administrative departments, financial leasing companies roughly fall into the following categories: finance lease companies (there were about 13 of them) which are approved and administered by the PBoC, operating lease companies which are approved and administered by the Ministry of Foreign Trade and Economic Cooperation, and operating lease companies which are approved and administered by the former Ministry of Domestic Trade and other relevant departments. As regards the nature of their leasing business, financial leasing companies can be divided into financial leasing companies and Sino-foreign joint venture leasing companies that mainly specialize in the finance lease business, and other leasing companies which mainly conduct the operating lease business.

Financial leasing companies refer to non-banking institutions which specialize in providing investment and financing services, subject to the approval and regulation of the CBRC. In 2007, the CBRC granted the approval for banks to have stakes in financial leasing companies. From 2007 to 2008, five financial leasing companies were established by banks. In 2014, the CBRC gave sanctions for financial leasing companies to set up their specialized subsidiaries, so that they could better give full play their characteristics and advantages of combined financing of funds and assets.

As of February 2019, forty-eight in seventy financial leasing companies in China were controlled or held by state-owned banks, joint-stock banks, urban commercial banks and rural commercial banks. Generally speaking, the bulk of them conducted the business in the sectors of urban utilities, large equipment, aviation and shipment, healthcare, rail transit, motor transportation, engineering machinery, green energy, and education and culture, as well as agriculture, rural areas and farmers.

2.3.5 Other Financial Institutions: Catering for the Needs of the Niche Market

Other non-depository financial institutions refers to auto finance companies, money brokerage companies, consumer finance companies, small credit loan companies and pawnshops, which mainly specialize in catering for the needs of the niche market and provide services for different targeted customer groups.

Auto finance companies refer to non-depository banking institutions which are established with the approval of the CBRC to provide financial services for automobile buyers and sellers in China.

In August 2004, SAIC-GMAC was the first auto finance company jointly set up by General Motors Acceptance Corporation (GMAC), SAIC Motors and SAIC Finance with approval. By the end of 2012, the company had up-scaled its business operations to more than 300 cities in 30 provinces and regions in China, providing one-stop auto finance services for more than one million automobile consumers. In 2017, the company saw its retail loan contracts pass the 1 million mark for the first time, becoming the first auto finance company that hit 1 million worth of contract price in China.

In September 2004, wholly foreign-owned Volkswagen Finance China Co., Ltd. was established with approval. From 2005 onwards, some wholly foreign-owned or Sino-foreign joint venture auto finance companies (e.g. Toyota Motor Finance (China) Co., Ltd.) were set up. From 2010 onwards, Chinese auto finance companies emerged. As of the end of 2019, there were twenty-five auto finance companies established in China and the bulk of them were foreign-owned companies or Sino-foreign joint ventures.

Money brokerage companies refer to non-depository banking institutions which are incorporated within the territory of China that specialize in promoting inter-financing, foreign exchange transactions and other brokerage services among financial institutions by employing electronic technology or other means, and charge commissions on services.

In December 2005, Shanghai Tullett Prebon SITICO (China) Ltd. operated in business with approval. From 2007 to 2012, Shanghai CFETS-NEX International Money Brokerage Company (2007), Ping An Tradition International Money Brokerage Company (2008), China Credit BGC Money Brokerage Company Limited (2010), and CITIC Central Tanshi Money Brokering Company Limited (2012) were established. As of the end of 2019, there were merely five money brokerage companies in China.

Money brokerage companies were allowed to operate in the four markets, namely money, bond, foreign exchange, and derivatives. By improving the efficiency of interbank market trading, and market liquidity, they effectively made up for deficiencies facing small and medium-sized financial institutions, including limited information access channels, weak bargaining power, and difficulty in finding business partners in the market. Through their services, money brokerage companies could help to achieve market fairness and ensure transparency.

Consumer finance companies refer to non-depository banking institutions which are established with approval in China to grant loans to individual residents for the consumption purposes on a small-sum and diversified basis without taking public deposits.

In January 2010, the first batch of three consumer finance companies, namely the Bank of Beijing Consumer Finance Company, *BOC Consumer Finance* Co., Ltd., and Sichuan Jincheng Consumer Finance Co., Ltd. (a Sino-foreign joint venture) set up by the BOC, Bank of Beijing, and Bank of Chengdu respectively were approved to conduct pilot business operations. In November 2010, Home Credit *Consumer Finance* Co., Ltd. was established with approval in Tianjin city, becoming the first wholly foreign-owned consumer finance company in China.

As of the end of October 2012, the above four consumer finance companies which were established in Beijing, Shanghai, Chengdu and Tianjin respectively held assets totaling RMB4, 016 million, had an outstanding loan balance of RMB3, 709 million and served more than 190,000 customers in total. In 2013, the pilot scheme for consumer finance companies was up-scaled, bringing about a sharp increase in the number of consumer finance companies and a rapid development of the industry. In early 2017, twenty-two consumer finance companies were established with approval, including twenty set up by banks, and largely by small and medium-sized banks. In

2018, the net profit of licensed Merchants Union Consumer Finance Company and Home Credit Consumer Finance Company passed the RMB1 billion mark for the first time in China.

By the end of 2019, twenty-six companies had obtained a consumer finance license. More than 3/4 of them were consumer finance companies established by banks, and the rest were established by industrial enterprises, listed companies and retail enterprises, including Mashang Consumer Finance Co., Ltd., *Haier Consumer Finance* Co. Ltd, *Suning Consumer Finance* Co., Ltd., and Huarong Consumer Finance Corporation.

Small loan companies emerged in China in 2006. On February 13, the first batch of private small loan companies (e.g. Shanxi Pingyao County Rishenglong Small Loan Co., Ltd., Shanxi Pingyao County Jinyuantai Small Loan Co., Ltd. and Shanxi Pingyao County Weiliansheng Small Loan Co., Ltd.) were approved to operate in business in Pingyao city of Shanxi province. In 2008, the three small loan companies saw their total capital rise to RMB112, 966,000, with an average annual growth rate of 63.9%.[14]

In May 2008, the CBRC approved the pilot scheme for establishing and developing small loan companies. In July, the Zhejiang Provincial Government pioneered in launching pilot small loan companies. As the Chinese government has legalized private finance, small loan companies galloped ahead. As of March 2009, there were a total of 583 small loan companies established in China.

As an important "last mile" financing channel for serving agriculture, rural areas, farmers and small and micro enterprises, small loan companies played an active role in promoting inclusive finance. However, small size, poor management and irregular operations were common problems prevalent in small loan companies. In March 2013, Jinhua Guangliheng Small Loan Company in Zhejiang province was dissolved due to poor risk prevention, becoming the first dissolved small loan company in Zhejiang province since the pilot scheme was launched in 2008.

As an economic downturn continued and P2P online lending emerged in 2018, small loan companies were confronted with a series of development bottlenecks, including a lack of premium customers, shrinking profits due to market-oriented interest rate, mounting bad debts, and intensified competition. As such, their pace of development has been slowed down.

As of the end of June 2019, there were a total of 7,797 small loan companies in China, with a combined outstanding loan balance of RMB924.1 billion, dropping by RMB30.4 billion in the first half of the year.[15]

Small loan companies are characterized by small size and scattered distribution. To achieve a stable development, they must provide specialized and differentiated premium services, operate according to the law, effectively prevent financial

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[14] Ju Jinwen: Study on Non-State-owned Economies Entering Monopolistic Industries, Economy and Management Publishing House, 2009, p174.

[15] PBoC: Small Loan Company Statistics Report for the First Half of 2017, July 25, 2017; Microfinance Company Statistics Report for the First Half of 2019, July 25, 2019.

risks, concentrate on supporting agriculture and small businesses, and serve the real economy.

Pawnshops were once a kind of conventional financial institutions in China. As a special niche subsector of the financial sector, pawn brokerage is viewed as an auxiliary means of financing. The whole industry was phased out in 1949, and pawnshops re-emerged in China in December 1987 when Huamao Pawnshop in Chengdu opened for business.

In 1988, pawnshops emerged in Zhejiang province, Shenyang, Shanxi province, Guangdong province, Shanghai, Fujian province, Hainan province, Jilin province, and Guizhou province. In the 1990s, the pawn brokerage industry kept a rapid momentum going. In 1996, there were a total of 3,013 pawnshops operating in business across China.

During its rapid development, the pawn brokerage industry encountered numerous problems due to a lack of corresponding laws and regulations, and existing regulatory loopholes. For instance, there were numerous illegal financial institutions conducting the pawn brokerage business, and some pawnshops operated in business illegally or beyond their business scope; some pawnshops illegally raised funds and hiked interest rates to attract deposits; few pawnshops colluded with social evil forces to take or dispose of stolen goods, granted loans for exorbitant profits, and forced pawnor to redeem collateral, which have disrupted the normal economic and financial order, and created adverse social impacts.

From 1996 to 2001, the PBoC decided to overhaul the pawn brokerage industry. Specifically speaking, all the pawnshops were handed over to the State Economic and Trade Commission for unified administration, and illegal pawnshops were dissolved or banned. In November 2001, the number of pawnshops in China fell to 1,180 from 3,013 in 1996. In April 2018, all the pawnshops were brought under the administration of the CBIRC.

From 2005 onwards, legal pawnshops flourished. As of the end of 2013, there were 6,833 pawnshops operating in business across the whole country, with a registered capital of RMB121.7 billion in aggregate and an outstanding pawn brokerage balance of RMB86.6 billion. Under the pawn brokerage business structure, real estate accounted for 52% of the total, movable property 29%, and property rights 19%. Generally speaking, the pawn brokerage industry mainly served micro and small enterprises and individual businesses, playing a role of filling up gaps and opening up an ancillary financing channel in the financial system.

As of the end of February 2018, there were a total of 8,532 pawn brokerage enterprises and 950 branches in China, with a registered capital of RMB173.13 billion in aggregate. Specifially, movable property, real estate and property rights pawnshops accounted for 30.88%, 52.89% and 16.23% of the total respectively.[16]

[16] http://pawn.cbrc.gov.cn/pawn_monitor/_news/html/2018/3/20/1521533556464.html. National Pawn Brokerage Industry Regulation Information System: The Business Performance of National Pawn Brokerage Industry in January to February 2018, [EB/OL], March 19, 2018, the official website of the National Pawn brokerage Industry Regulation Information System:

2.4 Securities Financial Institutions: Constituting a Chinese-Style Investment Banking System

The capital market that emerged in the regime of the Republic of China from 1949 onwards was phased out during the economic recovery and overhaul campaigns in the early 1950s, and it was not until 1990 when a new capital market was re-incubated and developed. Securities companies, securities investment fund management companies and futures companies constituted an investment banking system with Chinese characteristics.

2.4.1 Securities Companies: Forming the Core of the Investment Banking System

Securities companies, also known as securities brokers, originated from the issuance of treasury bonds and the joint-stock system reform of state-owned enterprises in China in the early 1980s, forging a bond between listed companies and investors.

During the "stock fever" of the 1980s, a large number of securities companies were established with approval, including Shenzhen Special Economic Zone Securities Co., Ltd. (1987),[17] Shanghai Wanguo Securities Co., Ltd. (1988),[18] Shenyang Securities Co., Ltd., Wuhan Securities Co, Ltd. and Shanghai Shenyin Securities Co., Ltd.. At the end of 1988, there were a total of thirty-three securities companies established with approval in China.

From 1992 onwards, the securities industry ushered in a period of rapid development. A good number of securities companies were established, while many trust and investment companies also invested in the securities sector. Securities companies and securities business offices of trust and investment companies sprang up like mushrooms across China. For instance, Zhenhua Road in Shenzhen is hailed as "Securities Street" because it is crammed with securities companies. At the end of 1992, sixty-seven securities companies were established with approval nationwide. Besides, there were also 913 business offices and 5,384 operating agencies which concurrently operated in securities business.[19]

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[17] In 2001, Shenzhen Special Economic Zone Securities Co., Ltd. developed into a comprehensive securities company. In 2002, it was rename Jutian Securities Co., Ltd… Due to its illegal operations, Jutian Securities Co., Ltd. was taken over by China Merchants Securities on October 13, 2006, making a gloomy exit from the market.

[18] On July 16, 1996, Shanghai Shenyin Securities Co., Ltd. and Shanghai Wanguo Securities Co., Ltd. merged to form Shanghai Shenyin and Wanguo Securities Co., Ltd.

[19] The Master Plan of the State Commission for Economic Restructuring for Deeping the Economic System Reform in 1988, the People's Bank of China and the CCCPC Party Literature Research Office (eds): *Selected Literature on Financial Work (1978-2005)*, China Financial Publishing House, 2007; p. 126.

In the midst of rapid development, various maladies occurred and lingered on securities companies, involving small size, numerous institutions, vicious competition, law and rule violations, and even shell securities companies. From 1993 to 1996, the regulatory authorities commenced to overhaul securities brokers in a centralized manner.

The regulatory authorities set forth the following provisions: Securities companies must specialize in securities investment rather than engaging in the business other than securities investment; securities companies that are engaging in trading in the primary market and the secondary market, as well as proprietary business and agency business of securities companies must be clearly defined and clarified; trust and investment companies established by banks must not engage in securities investment to ensure “separation of banks and securities companies” and securities brokers must operate separately from commercial banks; raise the market entry thresholds for securities companies, and tighten up the controls on securities broker qualifications.

After the overhaul campaign, all of commercial banks have exited the securities industry, while a small number of securities companies with a huge registered capital and high competitiveness have been newly set up, including United Securities, Orient Trust Securities and China International Capital Corporation Limited (CICC). The existing securities companies were progressively committed to enhancing regulated management and operation, which led to the formation of six types of securities companies.

First, securities companies with a legal entity status which were set up by banking syndicates and the government to specialize in the integrated securities business of investment banks and showed their strong competitiveness (e.g. Guotai Securities Company, Huaxia Securities and Everbright Securities). Second, large provincial securities companies backed by local governments and the financial authorities (e.g. Shenwan Securities, SEZ Securities, Beijing Securities, and Guangdong Securities), the bulk of which were distributed in economically developed regions, special economic zones, and medium-sized and large cities in the coastal regions. Third, large joint-stock securities brokers established and wholly-owned by local commercial banks (e.g. China Merchants Securities, GF Securities, and Fujian Industrial Securities). Fourth, securities companies or business divisions established and wholly-owned by insurance and trust investment companies (e.g. PICC Securities, CITIC Securities, Ping An Securities, and Shenzhen Guosen Securities). Fifth, joint-stock securities companies like Junan Securities, China Eagle Securities, Orient Securities and Great Wall Securities set up by using the industrial capital of other national financial institutions or large state-owned enterprises, which were mainly concentrated in the Shenzhen Special Economic Zone and the Shanghai Pudong New Area. Sixth, trust and investment companies, financial companies affiliated to enterprise group, and financial leasing companies that concurrently engaged in single or multiple securities business in the form of a non-legal entity business division or wholly-owned financial institution with a legal entity status.

As of the end of 1996, securities institutions included 2 national stock exchanges, 30 securities trading centers, 96 specialized securities companies, 6 accounting firms, approximately 100 asset appraisal agencies, 2 securities rating agencies, and

200 securities business outlets. Therefore, a securities-broker-centered Chinese-style investment banking system has taken shape.

Nevertheless, securities companies still had some maladies in urgent need of addressing. First, small size and insufficient capacity. In 1996, the market capitalization of ninety-six securities companies merely totaled RMB159, 053 million, with an average of only RMB1, 657 million per company. Nevertheless, there were merely ten securities companies with a market capitalization of approximate RMB 1 billion. Second, low-end business. The bulk of securities companies mainly engaged in the brokerage and proprietary business whereas they seldom conducted the investment banking business such as recapitalization of state-owned enterprises, and merger and acquisition and capital operation of enterprises. Third, a lack of effective solutions for financing. All in a word, securities companies were still far from being an investment bank in a real sense. Fourth, repeated violations committed by some securities brokers. For example, Shenzhen Junan Securities was closed down in 1997 due to violations involving management buyout (MBO) and transfer of huge capital to speculate in H-share, and it was taken over by Guotai Securities Company in 1998, restructuring into today's Guotai Junan Securities.

With a view to solving financing maladies facing securities companies, the CSRC and the PBoC granted the approval for qualified securities companies to invest in the interbank lending market on August 19, 1999, and seven securities companies including Guotong Securities Co. Ltd., Guosen Securities Co., Ltd., Xiangcai Securities Co., Ltd., China Eagle Securities Co., Ltd., *Everbright* Securities Company Limited**,** CITIC Securities Company Limited and GF Securities Co., Ltd. won the approval for establishment. In November 1999, several more securities companies were also allowed to invest in the interbank lending market and financed more than RMB3 billion.

In the second half of 2001, China's stock market dropped from 2,245.43 points to 1,339.20 points, plunging the capital market into a downturn and severely affecting the business performance of 118 securities in the country. From 2001 to 2002, the securities industry which suffered a loss and had zero capital was viewed as facing technical bankruptcy.

In 2002, the securities industry carried out structural reform. In addition to conventional investment banking and brokerage business, securities companies were also allowed to explore on the asset management business. As of June 2002, more than fifty securities companies applied for the license for conducting the asset management business. Meanwhile, securities companies were allowed to set up subsidiaries to operate in investment banking, securities brokerage, online securities brokerage, investment consulting, asset management and other types of business.

In July 2005, the CSRC launched a special overhaul, reorganization and system building campaign against problematic securities companies. In this campaign, eight securities companies such as Galaxy Securities, ShenYin and WanGuo Securities, Guotai Junan Securities, Huaxia Securities, and Beijing Securities were reorganized, while a third-party custody system for trading and clearing funds of customers was operated among reorganized securities companies at first. Meanwhile, problematic securities companies were promptly dealt with. The CSRC handled 7 high-risk securities companies in 2004 and 13 high-risk securities companies in 2005.

As of the end of 2006, there were a total of 130 qualified securities companies and more than 3,000 business offices engaging in different securities business following the overhaul campaign. It is noteworthy that they basically operated in a paperless manner throughout the process of issuing, trading and settling securities. However, the four traditional business of investment banking, brokerage, wealth management and proprietary business remained the main business of securities companies until 2011, while innovative business such as funds, financial advisory and mergers and acquisitions were newly launched on a limited scale. Meanwhile, the emerging international derivatives business such as options, futures and asset securitization have not yet taken root in China at all, and Chinese securities brokers were still far from being modern investment banks.

In 2014, the CSRC put forward 15 proposals concerning building modern investment banks, supporting business and product innovation, and shifting regulatory models, and this move played an important role in guiding the specialized and regulated operation of securities companies in the country. In 2018, the government rolled out multiple policies to support emerging enterprises in piloting in the issuance of stocks or depository receipts in the domestic market. In response, securities companies commenced to upgrade and transform their systems to embrace more business opportunities.

Securities companies went global in the 1980s. In 1992, the Shanghai Stock Exchange set up a B-share market for foreign investors.[20] As the first Sino-foreign joint venture, China International Capital Corporation Limited (CICC) was officially established with approval in August 1995. In 2001, securities companies expedited the process of going global and brought in foreign strategic investors. In 2002, the first Sino-foreign joint venture securities company was established. In 2006, the government launched a number of opening-up initiatives in 2006 to provide policy support for foreign strategic investors and help them enter the Chinese securities market.

After the 19th National Congress of the Communist Party of China was held, the Chinese government decided to significantly liberalize market access threshold for securities companies in the financial sector, allowing foreign investors to hold up to a 51% stake in joint ventures, without imposing shareholding ratio ceiling three years later. As of April 2019, there were thirteen foreign securities companies in China, including BOCI Securities Limited (2002), Goldman Sachs Gaohua Securities (2004), UBS Securities (2006), Morgan Stanley Huaxin Securities Company Limited (2010), and HSBC Qianhai Securities (2017).

Following the specialized, regulated and internationalized development, reform and overhaul campaign, there were a total of 131 securities companies with Chinese

[20] Prior to February 19, 2001, the B-share market was restricted to foreign investors. From February 19, 2001 onwards, the B-share market was opened to domestic investors and it is noteworthy that B-share investors were mainly institutional investors.

investment banks being mainstay at the end of 2019, including 35 listed securities companies.

2.4.2 Securities Investment Funds: Growing and Thriving According to the Law

Securities investment funds (hereinafter referred to as "Fund Companies") emerged in the 1980s, and have grown into major financial institutions in the securities industry. Tracing their development trajectory in the past 30 years, they have switched from spontaneous growth to regulated operation according to the law, with fund products and markets preceding fund management companies. With 1997 as a watershed year, two different types of funds, namely "old funds" and "new funds", were spawned at two different development stages in the fund industry.

"Old funds" refer to all the funds and business which were established and conducted prior to 1997. For example, the BOC and CITIC were the first to conduct the fund investment business in China in 1987, which symbolized the emergence of investment funds and the fund market in the country. In May 1989, Sun Hung Kai Capital Partners (SHKCP) launched the first China concept fund "Sun Hung Kai China Development Fund". Thereafter, investment funds flourished rapidly in the mainland securities market.

From 1990 to 1991, a number of funds were established in China, including closed-end China concept fund "Shanghai Fund" established by Amundi China in 1990, as well as the Sino-Foreign joint venture China Real Estate Fund, closed-end Zhuxin Fund, Wuhan Securities Investment Fund and Shenzhen Nanshan Venture Capital Fund, all of which were established in 1991.

As the first regulated closed-end corporate investment fund in China, Shandong Zibo Township Enterprise Investment Fund was established with approval in November 1992, and all the funds raised were used to support the development of township enterprises in Zibo city of Shandong province. In August 1993, Zibo Fund won the approval for getting listed on the Shanghai Stock Exchange, becoming the first fund to get listed in China. In addition, thirty-seven other funds were also established with approval in 1992, including China concept funds "Shenzhen Jingtai Fund" and "China Investment Development Fund".

In 1993, Shenzhen Blue Sky Fund, China Enterprise Development Fund and Central China Real Estate Fund were established. As of the end of 1993, there were a total of more than sixty investment funds established, with a total asset of more than RMB8 billion. Among them, fifty-six were domestic funds and more than 90% of them were initiated to be set up by finance institutions, with thirty-three getting listed on the Shanghai Stock Exchange.

Securities investment funds in China displayed a down-top development characteristics, with spontaneity playing a role behind the scenes. Many problems also surfaced in the course of their operation, including lax approval for funds and a lack of uniformity in entry thresholds across the country; irregularities such as irregular organizational structure, irregular operational management and irregular risk monitoring occurring from the outset in relation to some financing instruments launched for trading in the financial market in the name of funds; and funds functioning as a disguise means of raising capital at the early extensive developing stage.

In May 1993, the PBoC's head office commenced to overhaul the fund market. Specifically, it required all branches to cease the irregular issuance of funds and income bonds in a timely manner, to encourage the development of fund companies, to prohibit from approving the establishment of new funds, and to strictly regulate the operation of established funds, and the issuance of approved funds.

These efforts to overhaul securities investment funds have produced results. As of the end of 1994, a nationwide fund trading market took shape. It included 73 securities investment funds with a total asset of about RMB 8 billion, of which 51 were listed on either the Shanghai or Shenzhen Stock Exchange, or one of the regional securities trading centers.

"New funds" refer to funds which were established in accordance with the Interim Measures for the Administration of Securities Investment Funds issued by the CSRC in November 1997. These funds are contractual closed-end funds characterized by separate operation and they are regarded as specialized, regulated and true investment funds. The year 1998 saw the launch of the first batch of five new closed-end funds to the market, which were operated by five fund management companies respectively. Thereafter, investment fund companies and the fund market have progressively entered a law-based development stage.

The Securities Law (1999) provided for that only funds were allowed to operate in the investment fund business, while trust and investment companies and securities brokerage companies must progressively exit from the investment fund market and discontinue the securities investment business. By the end of 1999, 20-odd securities investment funds had been issued in China, all of which were established in the form of contractual closed-end funds.

In 2000, open-end securities investment funds became mainstream funds. In September 2001, the first open-end fund "Hua An Innovations Fund" was issued, marking a switch from closed-end to open-end funds. Closed-end funds ceased to be issued in China from August 2002 onwards.

In accordance with the relevant provisions of the Securities Investment Fund Law (2004), the fund industry entered a regulated and rapid development period. As of the end of 2004, there were a total of 161 funds, of which 54 were closed-end funds and 107 were open-end funds. Besides, 45 fund management companies were established, with a total asset of 243,667 million under management.

In 2005, the fund business entered a new phase of mixed operation. Most notably, commercial banks were allowed to set up fund companies and the ICBC, CCB and BOC became the first three pilot banks for setting up fund companies. In 2007, the regulators expanded the scope of pilot banks. As of the end of 2012, there were eight commercial bank-controlled fund management companies with total assets of nearly RMB500 billion. In a new era of asset management and wealth management, fund management companies stepped up their business model shift to become major financial institutions specializing in modern wealth management from 2013 onwards.

Private funds refer to investment funds that are not publicly offered to raise funds from a limited pool of investors. The Securities Investment Fund Law revised in December 2012 accorded the legal status of private funds. According to the Law, the establishment of private fund management companies and the issuance of private funds were not subject to administrative approval. The CSRC was responsible for regulating the business activities of private funds, while the AMAC took charge of their registration and self-regulation.

In 2014, the AMAC imposed a private fund registration and filing regulatory regime. All the private fund management companies registered with the AMAC were allowed to set up private securities investment funds as managers; private funds registered with the AMAC were allowed to open accounts at the CSDC and invest in stocks, bonds and other financial derivatives traded on exchanges. As of the end of 2014, there were 1,471 registered private equity fund managers in China. In 2015, the number soared, hitting 10,921 at the end of the year.

The imposition of relevant legislation and regulatory regime has put an end to the spontaneous growth of private equity funds and investment companies. By shifting to "sunshine private funds" governed by laws and regulations, private equity investment funds have become major institutional investors in the securities market. As of the end of 2018, private funds invested in 50,300 SME projects, and 24,700 high-tech enterprise projects. Among the first batch of the twenty-five enterprises listed on the SSE STAR Market, twenty-three listed enterprises were backed by private funds.[21] Due to a combination of aggravating factors such as a short development history, a lack of sound legal norms and lax regulation, there still existed maladies like illicit fundraising, illegal investment operations and irregular regulation in the private fund industry.

As of the end of 2018, there were 120 fund management companies, 24,448 private fund managers registered with the AMAC, and 74,642 registered funds with a total asset of RMB12.78 trillion in China.[22]

2.4.3 Futures Trading Institutions: Indispensable Financial Organizations

As a late comer, futures trading institutions emerged in the 1990s, and have developed into indispensable financial organizations in the securities market, mainly including futures exchanges, futures companies, and futures brokerage companies, among others.

[21] The Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2018, China Financial Publishing House, 2019, pp. 69–70.

[22] The Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2018, China Financial Publishing House, 2019, pp49-50.

On October 12, 1990, the Zhengzhou Grain Wholesale Market which took the initiative to operate the futures trading mechanism in China was officially opened for business operations. From 1992 to 1995, Shenzhen Nonferrous Metals Exchange, Shanghai Metals Exchange,[23] Zhengzhou Commodity Exchange, Dalian Commodity Exchange and Shanghai Futures Exchange were established and opened for trading. As such, China's futures market has taken shape from scratch.

From 1991 to 1992, a number of futures brokerage companies such as Jinpeng International Futures Brokerage Co., Ltd. and China International Futures Company Limited were established with approval and opened for business operations. As of the end of 1992, there were a total of nearly 300 futures brokerage companies established across China, including more than fifty Sino-foreign joint venture futures brokerage companies.

During its initial blind development stage from 1993 to 1999, the futures market was riddled with many maladies, including an overabundance of futures exchanges and brokers operating in an irregular manner, whose offshore futures trading operations were mostly speculative in nature, and some of which even more have caused serious losses to the country; violations such as employing various unscrupulous tactics to defraud domestic clients by some Sino-foreign joint venture or pseudo-joint venture futures brokers, incurring massive foreign exchange losses; rampant illegal underground futures trading; and disruptive market order with manipulative operations occurring from time to time.

From 1993 to 1999, government regulators launched a lengthy overhaul and regulation campaign against the futures trading market and futures companies.

First, a legal status of futures brokerage companies was clarified. On April 28, 1993, the State Administration for Industry and Commerce issued the first administrative measures for regulating the futures market to clarify the status of futures brokerage companies and set forth their codes of organization and conducts. Measures were also taken to curb the blind development tendency of the futures market.

Second, a correlation and coordination mechanism involving multiple regulatory authorities was established. In December 1993, the CSRC set up the Department of Futures Supervision to tighten up targeted regulation. Meanwhile, the CSC, the Ministry of Domestic Trade, the State Administration for Industry and Commerce and the PBoC all constituted part of the futures market regulatory regime.

Third, exchanges, trading business and trading institutions were all overhauled and closed down. As of the end of 1993, more than fifty existing exchanges were overhauled and closed down, while only fifteen pilot exchanges such as Shanghai Commodity Exchange were retained. All the exchanges were required to reform their membership systems and amend their articles of association and trading rules and regulations. In April 1994, the CSC banned the futures trading of

[23] In 1999, Shanghai Metal Futures Exchange, Shanghai Grain and Oil Commodity Exchange and Shanghai Commodity Exchange merged to form Shanghai Futures Exchange. At of the end of 2019, it had 198 members, of which futures company members accounted for nearly 75percent of the total.

steel, sugar and coal. From September 1994 to February 1995, the futures trading of japonica rice, rapeseed and soybean oil was suspended, and futures trading activities in the name of conducting medium- and long-term forward sugar contract trading were banned.

In October 1994, a futures companies licensing regulatory regime was imposed. In 1995, there were 330 futures brokers subjected to re-examined and re-approval, all types of futures brokers were subjected to stringent approval, joint venture futures brokers were closed down, illegal foreign exchange futures trading was cracked down on, and illegal futures brokage activities were investigated and dealt with. In November 1995, the relevant authorities commenced to re-examine the license for engaging in futures brokerage business by non-futures brokerage companies. As of the end of 1995, there were 326 futures brokers that had registered and applied to the CSRC for approval.

Fourth, excessive speculative operations were rigorously regulated in the futures market. In February 1996, the CSRC stipulated that state-owned enterprises were not allowed to engage in the speculative trading in futures, that all types of financial institutions were not allowed to engage in the proprietary and agency business in commodity futures, and that all of futures brokers were not allowed to engage in the proprietary business. Additionally, state-owned enterprises and state-holding institutions or public institutions and enterprises were only allowed to engage in hedging transactions in commodity futures associated with their manufacturing and operations rather than conducting speculative transactions, let alone vicious publicity stunt. No financial institution was allowed to engage in the proprietary or agency business of commodity futures and a market debarment regime has been therefore established.

Through the implementation of an annual inspection system, the CSRC overhauled and closed down futures brokerage companies. In 1996, thirty-three brokerage companies were inspected and closed down, followed by nineteen brokerage companies in 1997. In 1998, sixty-five brokerage companies failed to pass annual inspection. The CSRC raised the market access threshold for futures brokerage companies in 1999, requiring a minimum registered capital of not less than RMB30 million.

Fifth, the futures market was further overhauled and regulated. In August 1998, government regulators retained only three futures exchanges, namely Shanghai, Zhengzhou and Dalian futures exchanges, and placed them under the direct administration and regulation of the CSRC. The number of commodities for futures trading was reduced from 35 to 12. Meanwhile, they also closed down financial institutions that concurrently operated in the futures business and disqualified all the non-futures broker members from futures brokage trading. No futures broker was allowed to engage in the proprietary business, and stringent control was imposed on offshore futures trading.

Sixth, law-based regulatory rules and regulations were laid down for the futures market. In addition to documents and regulations governing futures brokerage contracts and futures transactions, the CSRC also successively issued the

Measures for the Administration of Futures Exchanges, the Measures for the Administration of Futures Brokers, and the Measures for the Administration of Qualifications of Futures Practitioners and Senior Managers of Futures Brokers from May to December 1999. With the implementation of these measures and regulations, the futures market has basically entered a regulated development period, while the large-scale overhaul of the futures market has also been temporally suspended.

Following years of close-down and overhaul, the futures market has been on the wane and progressively plunged into a low ebb. In other words, some futures brokerage companies have been meted out penalties for illegal business operations, and poorly managed futures brokers have been shut down, merged or reorganized into other types of businesses. As of the end of 2000, there were only 185 remaining futures brokerage companies in China. It was not until the end of 2003 when the number rose to 190, and there were about 6,270 futures practitioners registered with the China Futures Association.

In 2006, the futures market effected a turnaround. In March and April 2006, two batches of domestic futures companies were allowed to set up branches in Hong Kong. On September 8, 2006, China Financial Futures Exchange (CFFE) was officially inaugurated in Shanghai. As a corporate exchange specialized in the trading and settlement of financial futures, options and other financial derivatives, the CFFE had great significance for improving the trading systems of the securities market.

In May 2012, the government introduced relevant policies to encourage and guide private investors to hold a stake in futures companies by way of capital increase, merger and reorganization, or other means, and to support qualified private holding futures companies in joining the innovative futures business pilot scheme.

On November 6, 2013, the Shanghai International Energy Exchange Co., Ltd. (INE) was approved for registration and inauguration in the Shanghai Free Trade Zone (FTZ), which is an international trading venue initiated to be set up by the Shanghai Futures Exchange and opened to futures market participants for business operations.

As of the end of 2018, there were a total of 149 futures companies in China, which set up 79 risk management subsidiaries and 10 asset management subsidiaries, and held assets totaling around RMB540 billion. Additionally, there were 61 futures and option products traded in the market, including 51 commodity futures products, 6 financial futures products, 3 commodity options products, and 1 financial options products. The futures industry expedited the process of going global, bringing in foreign traders to deal in iron ore futures and PTA futures in May and November 2018 respectively.[24]

[24] The Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2019, China Financial Publishing House, 2019, p. 50.

2.5 Insurance Institutions: Commercial Financial InstitutionsWere Committed to Ensuring Security

As a financial institution continuing in business in China in the past seventy years, insurance institutions were not only major participants in the financial market, but also constituted an important part of China's social security system.

2.5.1 Government-Mandated Compulsory Insurance in the Early Period

From 1949 to 1952, China's insurance industry was in embryo. As the first national insurance company and a state-owned financial enterprise in China, the People's Insurance Company of China (PICC) was officially established in Beijing on October 20, 1949, with a registered capital of 60 billion denominated in old RMB.[25] In June 1950, the PICC set up 5 major regional subsidiaries and 31 branches, with 2,263 employees across the country. In 1950, the PICC suspended domestic reinsurance business, yet still carried on the reinsurance business in its overseas insurance operations in the London insurance market. Additionally, it also entered into reinsurance contracts with insurance companies in the Soviet Union, Poland, Czechoslovakia, Bulgaria and Hungary.

In February 1951, the Chinese government mandated compulsory insurance for state organs, state enterprises, cooperatives' property, travelers and property and it stipulated that the PICC must provide compulsory insurance against property, shipment, railway transportation, motor vehicle, accidental injury of passengers in air, rail, road and sea transit. Therefore, the bulk of enterprises and state organs have purchased insurance. Besides, the PICC also offered livestock insurance, crop insurance, and import and export cargo insurance as well.

In the early 1950s, the compulsory insurance policy introduced by the Chinese government provided major economic security for the newly liberated Chinese society.

2.5.2 Discontinuation of Insurance Provision and Social Security Provided by Insurance

From 1953 to 1978, a combination factors such as overall political situations, political movements and common misconceptions in those days militated against the development of the insurance industry. Some people even argued that as long as socialist

[25] From 1949 to 1984, the People's Insurance Company of China (PICC) was affiliated to the PBoC internally, but was known as the PICC externally.

reform had completed and a socialist public ownership economy had been built in China, all the expenditure in the people's birth, illness and death, as well as property losses should all be financed by state revenues, and thus social security provided by insurance was no longer needed at all. Misled by such common misconceptions that there was no need to arrange for and take out insurance, the Chinese government has discontinued insurance provision and social security provided by insurance.

Amidst this background, the PICC comprehensively suspended its compulsory insurance business in the sectors of iron, grain, geology, posts and telecommunications, water conservancy, and transportation. Additionally, it discontinued all the domestic insurance business and disbanded the related staff. From April 1964 onwards, the PICC successively suspended ocean vessel insurance, motor vehicle third party liability insurance, and insurance against strike-incurred import and export losses. Meanwhile, the number of countries maintaining a reinsurance relationship with the PICC fell from 32 to 17.

In the 1960s and 1970s, the people had no guarantee for their social security and life and property security provided by insurance due to the crippling or even disbanding of the insurance industry,

2.5.3 Restoration and Establishment of the Economic Compensation System

It was not until February 1979 that the domestic insurance business of the PICC was resumed, and its domestic insurance business, which had been suspended for more than 20 years, was fully resumed in 1980, including enterprise property insurance, family property insurance and automobile insurance, and covering nearly 100,000 enterprises, more than 900,000 households and 130,000 automobiles, with a total value of RMB 200 billion. Of these, state-owned enterprise property was valued at RMB193.5 billion, accounting for approximately 23% of the fixed assets and working capital of the above enterprises.

As of October 1981, there were a total of 477 specialized insurance institutions and 803 banking agency outlets established in large and medium-sized cities and a few counties of 28 provinces, cities and autonomous regions (excluding Xizang), with more than 5,700 insurance specialists employed. The payouts topped RMB148 million in aggregate, accounting for 46.8% of gross insurance premium revenue.

As a state-owned specialized insurance company, the PICC further expanded its business scope to include property insurance, life insurance, liability insurance, credit insurance and agricultural insurance, as well as reinsurance, etc. in December 1982. In 1983, it became a bureau directly under the State Council, and it was officially separated from the PBoC on January 1, 1984 yet still operated under the leadership, administration, coordination, supervision and audit of the PBoC at that time. In July 1987, the PICC established a branch in the Xizang Autonomous Region. Henceforth, it has set up branches in all provinces and regions in China.

Through business restoration and institutional restructuring, the PICC rapidly expanded its business operations. As of the end of 1993, the PICC had over 4,000 branches, over 100,000 employees and over 200,000 agents in China. Additionally, it set up over 60 overseas branches across the country, with over 800 recruited employees. As such, PICC has established an overseas insurance network with Hong Kong and Macao as the mainstay, alongside Britain, Singapore, the United States, Germany, Canada and Central America as key business regions.

During the period of recovery and development in the 1980s, the insurance industry played a proactive role. Specifically, it not only served as a channel for pooling domestic construction funds, but also helped to establish China's economic compensation system, effectively providing a security network for ensuring the normal production and operation of enterprises, protecting people's livelihood, and reducing social wealth losses.

2.5.4 Reform of Institutional Mechanism and Commercialized Operation

Insurance institutions refer to financial institutions which provide social security and concurrently engage in commercialized operations. As a kind of commercial enterprises, insurance companies must operate in business. Prior to 1995, China's insurance industry operated a mixed operation system in which property insurance and life insurance were concurrently conducted. Nevertheless, the system of this sort was not conducive to control of insurance risks. Meanwhile, it also stunted the balanced development of insurance products. With the implementation of financial system reform in 1995, it was imperative for the insurance industry to comprehensively carry out reform in its operating regime in six aspects as well.

First, separating administrative functions from enterprises, and carrying out separate operations. It was imperative to separate social insurance from commercial insurance, separate life insurance from non-life insurance, and separately account for policy insurance and commercial insurance. Insurance companies must operate as genuine insurance enterprises and realize equal and orderly competition. Second, building a multi-tier insurance institution system (e.g. national, regional and specialized insurance companies). Third, establishing reinsurance companies. Fourth, progressively developing rural insurance in various forms. Fifth, duly increasing the scope and autonomy of insurance enterprises in the use of funds, and appropriately raising the insurance reserve requirement ratio. Sixth, establishing insurance associations, and tightening self-regulation.

According to China's Insurance Law (1995), the business philosophy of separating operations in property insurance and life insurance was set forth. In July 1996, the PICC took the initiative to carry out reform in its business model system. After it renamed the People's Insurance Company (Group) of China Limited, it carried out separate operation. Meanwhile, the PICC set up the PICC Property and Causality

Co., Ltd., the PICC Life Insurance Co., Ltd., and the PICC Reinsurance Co., Ltd., while its overseas branches were still under the administration of the head office.

Other domestic insurance companies successively initiated separate operation reform. In 2002, the former Xinjiang Construction Corps Insurance Company, Ping An Insurance Company and China Pacific Insurance Company Limited all completed their reform for separating property insurance from life insurance.

In the meantime, insurance institutions were reformed and restructured to specialize in their operations, starting with the separation of property insurance from life insurance. Subsequently, endowment insurance, health insurance and agricultural insurance were also separately operated by newly established specialized insurance companies as well.

In 2004, specialized endowment insurance companies such as Ping An Endowment Insurance Co., Ltd., China Pacific Insurance Aging Industry Investment Management Co., Ltd., China Life Pension Company Limited, Changjiang Pension Insurance Co., Ltd., and Taikang Pension and Insurance Co., Ltd. were successively established with approval in tandem with specialized agricultural insurance companies including China Pacific Anxin Agriculture Insurance Co., Ltd., Anhua Agricultural Insurance Co.,Ltd., and Sunlight Agricultural Mutual Insurance Company. In 2008, there were four specialized health insurance companies engaging in business operations in China's personal insurance market, namely PICC Health Insurance Company Limited., the Ping An Health Insurance Company of China, Ltd., Reward Health Insurance Company Ltd. and Kunlun Health Insurance Co., Ltd.

Through the above separate operation reform, the insurance industry has progressively established a diversified institutional system, and it has constantly expanded business scope. In 2005, insurance companies researched and developed more than 200 liability insurance products, which played an active role in maintaining social stability. Additionally, insurance companies were allowed to set up securities investment fund companies. As of the end of November 2005, RMB106 billion of insurance funds were indirectly injected in the securities market, and RMB13.57 billion of insurance funds were directly invested in the securities market. As of the end of 2005, insurance companies became the second largest institutional investor in the bond market, with their direct investment in stocks hitting RMB15, 888 million. Additionally, some insurance companies also piloted in integrated cross-business operations by setting up subsidiaries, and banking and insurance industries also promoted their cooperation by switching a loose business alliance to a capital alliance.[26] In March 2008, insurance companies saw assets under management hit RMB12.25 billion.

In addition to their business management system reform, insurance institutions have also reshaped their institutional framework. In February 2002, the joint-stock system reform entered a substantive implementation stage in the insurance industry. In November 2003, the PICC became the first domestic financial enterprise to go public abroad, taking the lead in completing its joint-stock system reform. In

[26] Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2006, China Financial Publishing House, 2007, p. 5.

December 2003, the China Life Insurance Company set a new financing record for its first IPO in the international capital market that year.

In June, 2004, Ping An Insurance (Group) Company of China, Ltd. became the first Chinese financial company to go public overseas in the form of a group corporation. Following the establishment of China United Insurance Group Company Limited in 2006, wholly state-owned insurance companies have completely exited from the market, marking the full completion of joint-stock system reform of all state-owned insurance companies. As of 2007, there were a total of six Chinese insurance companies going public at home or abroad.

Although the reform of the separate operation in the insurance industry achieved the desired effect prior to 2003, it ran counter to the development trends of the expanded opening up to the outside world in China's financial industry and financial globalization. To that end, insurance companies must switch from separate operation system to integrated operation by establishing financial holding companies. In 2004, Ping An Bank was established with Ping An Insurance (Group) Company of China, Ltd. as its controlling shareholder, which signified that Ping An Insurance (Group) Company of China, Ltd. had become a company group integrating diversified financial services.

From the twenty-first century onwards, the commercialized insurance industry was booming. As of 2005, there were a total of 93 legal entity institutions in the insurance industry, including 6 insurance groups and holding companies, 35 property insurance companies, 42 personal insurance companies, 5 reinsurance companies, and 5 insurance asset management companies. As a whole, the insurance industry reaped a premium revenue of RMB493, 128 million, with assets totaling RMB1, 529,869 million.

2.5.5 Bringing in Private Capital and Changing Shareholder Structure

The insurance industry is among the first batch of the financial industries which lifted the restrictions on private capital injection in China. In 2002, the private insurance industry emerged and private capital was injected into some newly established non-state-owned insurance companies or state holding companies through acquiring shareholdings. In 2002, Beijing Yuanxinhang Investment Consulting Company and Beijing Baohua Investment Company which were both controlled by natural person, acquired all the shares transferred by China Merchants Group, the former second largest shareholder of Ping An Insurance (Group) Company of China, Ltd.. In this way, they were among Top10 ten shareholders of Ping An Insurance (Group) Company of China, Ltd. and reorganized Ping An Insurance (Group) Company of China, Ltd. into an insurance company with a huge injection of private capital. After completing its reorganization from a state-owned holding company to a private holding company, SINOSAFE Insurance became China's first private property insurance company on May 27, 2003.

On June 28, 2003, Minsheng Life Insurance Co., Ltd. was established with approval, kicking off the official entry of private capital into China's insurance industry. This insurance company had over 80% of its capital coming from 10-odd private enterprises, including Wanxiang Group Corporation, East Hope Group, and New Hope Group Co., Ltd..

From 2004 to 2005, many private investors invested in the insurance industry and there was a sharp increase in the number of insurance companies with a large injection of private capital. In July 2004, eighteen Chinese insurance companies were newly approved for establishment, eleven of which opened for business operations in 2005. Among them, massive private capital was injected to the above insurance companies, including eight life insurance companies such as PICC Life Insurance Co., Ltd., Union Life Insurance Co., Ltd., Great Wall Life Insurance Co, Ltd. and Jiahe Life Insurance Co., Ltd.; seven property and casualty insurance companies such as Sunshine Property and Casualty Insurance Company Limited, Dubon Property and Casualty Insurance Co., Ltd., Bohai Property Insurance Company, Bank of China Insurance Company Limited and Sunlight Agricultural Mutual Insurance Company, as well as three health insurance companies including PICC Health Insurance Company Limited and Ping An Health Insurance Company of China, Ltd.. Most notably, Unionlife Insurance Co., Ltd. and Jiahe Life Insurance Co., Ltd. were both private insurance companies.

From 2005 onwards, the government progressively relaxed the policy restrictions on private capital's entry into the insurance industry. Therefore, private investors saw their shares of the insurance industry exceed 40%, which was far higher than that of other financial sectors. All the insurance companies which were established with approval from 2011 to 2012 all received a huge injection of private capital, including Li'an Life Insurance Company Limited, Foresea Life Insurance Co, Ltd., Urtrust Insurance Co., Ltd., and JinTai Property and Casualty Insurance Co., Ltd.

With a view to implementing the "New 36-point Policy for Non-Public Economies" issued by the State Council, the Chinese government intensified efforts to support the development of private insurance institutions by encouraging the injection of private capital into the insurance sector, and opening up a wider green channel[27] for private investors to invest in the insurance market in June 2012. As such, the shareholder structure of the insurance industry has been further reformed.

[27] Xiao Yang: Abolishing the 20percent Ceiling: Implementing Rules on How to Guide Private Capital to Grow in Maturity, July 4, 2012, p. 11.

2.5.6 Giving Priority for Risk Prevention and Control and Leveraging of the Insurance Security Functions

Following the Third Plenary Session of the 18th CPC Central Committee held in 2013, the insurance industry has received two major policy dividends. In August 2014, the State Council called for accelerating the development of the modern insurance service industry and this created historical opportunities for the insurance industry. Meanwhile, top-level decisions and designs were in place to promote the development of commercial health insurance, and the insurance industry was incorporated into China's overall strategic blueprint for economic and social development. According to the 13th Five-Year Plan for the Insurance Industry, the insurance industry shifted its focus to endowment insurance and health insurance, stressing that insurance must provide a basic means for the government, enterprises, and residents to carry out risk and wealth management.

On May 12, 2016, an earthquake catastrophe insurance system for protecting urban and rural dwellers was officially launched in the insurance industry. On June 12, 2016, the Shanghai Insurance Exchange was established to provide a business platform for bidding, tendering and special risk diversification for international reinsurance, international cargo insurance and bulk insurance projects. On June 26, 2016, the catastrophe insurance platform system with insurance and settlement functions was officially launched, aiming to provide earthquake catastrophe community with one-stop integrated services covering underwriting, claims, trading and settlement.

As of the end of 2018, the insurance industry held assets totaling RMB18.33 trillion, including RMB2.35 trillion for property insurance companies, RMB14.61 trillion for personal insurance companies, RMB364, 979 million for reinsurance companies, and RMB55, 734 million for asset management companies. Besides, the outstanding insurance fund balance stood at RMB16.41 trillion, while insurance density and insurance penetration were RMB2, 724 and 4.22% respectively. As compared to the global average insurance density and penetration over the same period, China still had a big gap to narrow.[28]

As of June 2019, there were 236 insurance institutions in China, including 12 insurance group companies, 87 property insurance companies, 82 life insurance companies, 25 insurance asset management companies, 11 reinsurance companies, 8 endowment insurance companies, 7 health insurance companies, 1 import and export insurance company, and 3 other financial institutions.[29] In addition, there were also 2,652 insurance intermediaries, insurance Surveyor and Adjusters companies, specialized insurance agencies, and insurance brokerage companies in the country.

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[28] The Financial Stability Analysis Group of the PBoC: China Financial Stability Report 2019, China Financial Publishing House, 2019, p. 42.

[29] http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=875933&itemId=924&generaltype=1.

China Banking and Insurance Regulatory Commission (CBIRC): List of Legal Persons of Insurance Institutions (as of the end of June 2019), [EB/OL], CBIRC official website, October 10, 2019, accessed on February 17, 2020.

With its functions of economic compensation, risk assurance, capital financing and social management, the insurance industry provided a basic means for risk management of a market-oriented economy, and constituted an important part of the financial system and social security system. In the past seven decades, the insurance industry played an important role in promoting the coordinated development of the money, capital and insurance markets, establishing and improving a financial market system, optimizing the socialist market economy system, innovating social governance, public services and social security models, and exercising government administration in a more effective manner. In short, it is a microcosm of the development and reform trajectory of China's financial sector.