

## Research on Risk Management of Enterprise Annuity Fund

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**Abstract:** With the country's vigorous development of enterprise annuities, the size of enterprise annuity funds is increasing. How to manage the risk of enterprise annuity investment so that it maintains and increases value in a dynamic economy is related to the success or failure of the entire multi-level pension insurance system. Reform of the entire economic system and economic and social development. However, although corporate annuity has become the focus of attention for a time, most of the domestic research on corporate annuity still focuses on the introduction of models, and few people have mentioned the investment of corporate annuity funds. This thesis is an attempt to discuss this issue that is currently lacking research but is crucial.

### 1. Introduction

Enterprise annuities were originally called enterprise supplementary pension insurance in China, and were officially renamed “enterprise annuities” in the “Pilot Scheme on Improving the Urban Social Security System” issued by the State Council in 2000. It refers to an endowment insurance plan established or assisted by an employer to provide a certain level of retirement income protection for its employees under the guidance of relevant national laws and regulations.

### 2. Risks Facing Enterprise Annuity Funds

According to the nature of risk, the investment risk of enterprise annuity funds can be divided into two categories: systemic risk and non-systematic risk. Systemic risk refers to the possibility of changes in corporate annuity fund investment income due to global events. This global event includes events formed by social, political, economic and other factors. It affects all enterprises, investors, and asset types. It usually manifests itself in an investment field, an investment market, or an industry sector. As a whole, the fault layer is large and the area involved is wide, which often makes the price of an entire class or group of assets fluctuate sharply. This kind of risk cannot be eliminated through diversified investment, so it is also called non-dispersible risk. In contrast, non-systematic risk is only in terms of individual risks, that is, the risks caused by changes in individual factors of an asset are not related to the entire capital market. That is to say, the non-systematic risk of an asset does not bring risks to other assets, so it can be diversified by diversifying the asset portfolio, also known as dispersible risk.

The investment risk of enterprise annuity funds can be divided into market risk, interest rate risk, default risk, purchasing power risk (also referred to as inflation risk), liquidity risk, political risk, management risk, and exchange rate risk. Almost any of these risks cannot be completely eliminated through risk diversification, because almost any of them includes two parts with different properties: one is non-systematic risk that can be dispersed, and the other is non-dispersible. Systemic risk.

Market risk is the most common and common risk in investment activities. The so-called market risk is simply the risk of changing the returns of asset investors due to fluctuations in asset market prices. Whether it is investing in physical assets or financial assets, investing in stocks, bonds, futures, options, or investing in real estate, foreign exchange, and capital (currency) markets, almost all investors must bear this risk. People usually use the changes in the asset market price index to measure the magnitude and strength of the asset market risk.

Interest rate risk refers to the risk of changes in investment income due to fluctuations in market

interest rates. There is interest rate risk in bonds, stocks, and various other assets, but interest rate risk affects them in different ways and degrees. For example, changes in interest rates have a direct impact on the price of bonds, but have only an indirect effect on the prices of stocks, foreign exchange, and real estate; interest rate risk usually has a greater impact on investments in securities with fixed income, but on uncertain income securities is small; the interest rate risk of short-term bonds and long-term bonds with floating interest rates is smaller than long-term bonds with fixed interest rates.

Default risk (or credit risk) refers to the possibility of loss of income to investors due to changes in the economic conditions of the investment target and failure to perform the investment contract. The default of the investment object includes the bankruptcy of the investment object due to the poor management of the investment object itself and the changes in the overall economic environment, such as the economic recession, failure to pay interest on time, and return of the principal. This is mainly a risk to be faced when investing in various “fixed income securities” such as bond preference stocks and money markets.

Purchasing power risk (inflation risk) refers to the part of the total change in actual investment returns that is caused by changes in the general price level. Inflation is the most basic cause of purchasing power risk, so some people call it purchasing power risk. The purchasing power risk performance of different assets is different. The risk of purchasing power of monetary assets is the largest and cannot be dispersed; the price of real estate rises with the increase of the inflation rate, and its purchasing power does not decrease due to inflation, so the risk of purchasing power of real estate is very small. Because the inflation rate rarely changes sharply in a short period of time, the risk of inflation depreciation for short-term bonds is relatively low compared to long-term investments.

Liquidity risk refers to the risk of reducing investment returns due to the rush to sell assets in hand, which may use price discounts, agency sales, and other methods. Highly liquid assets have a complete secondary market and can be sold at any time without reducing the price. Poorly liquid assets do not have a complete secondary market and it is not easy to transfer transactions. Therefore, it is necessary to reduce prices or entrust agents. Transaction, resulting in capital loss.

### **3. Risk Management Strategies for Enterprise Annuity Funds**

At present, the popular strategies for controlling these investment risks abroad are portfolio strategies, risk management strategies using financial derivatives, asset and liability management strategies, and risk aversion strategies. Based on the introduction of these risk control strategies, this section will analyze and evaluate the applicable environment, and point out how to use them to control the risks in the investment process of China's enterprise annuity funds.

The central idea of modern portfolio theory is that there is a correlation between the return on investment of various assets. Investors can use this correlation and the differences in the risks faced by investment varieties to reduce total investment risk through investment diversification. The key to applying portfolio theory is how to select various assets with weak correlation, irrelevance, and even negative correlation to establish an investment portfolio, and realize diversification of assets to the greatest extent through diversification of asset structure. This diversification includes diversification of asset types, decentralization of sectors or industries, diversification of investment maturity dates, and diversification of investment opportunities.

Enterprise annuity fund investment risks include systemic risk and non-systematic risk. Decentralized investment using portfolio theory can only eliminate non-systematic risk, but it is powerless to systemic risk. However, due to institutional defects, the proportion of systemic risk in China's capital market is much larger than non-systematic risk. Regarding systemic risk, internationally, financial derivatives are mainly used for risk management.

The method of controlling financial risks by derivative transactions does not change the risk exposure trend of the original basic business. Instead, it establishes a position outside the table that has a risk exposure trend that is exactly opposite to the original business, so as to achieve the perfect off-balance sheet business and on-balance sheet business risk neutralize. For example, a

Carefully calculated futures trading position can offset the risk of basic transactions with less capital expenditure, thereby achieving risk neutralization. On the basis of hedging risks, options trading can also seize the opportunity of price changes that are conducive to oneself to earn the gains of price changes, and continue to hedge when the price changes are not good for themselves. Other derivative transactions also have their own clever functions: forward transactions can fix the price of future transactions without having to worry about the uncertainty caused by changes in market prices and reduce market risk. The emergence of swaps allows both parties to use each other's comparative advantages to reduce costs and increase returns. It can also be used as a tool for asset and liability management to reduce the interest rate risk and liquidity risk of both parties.

Asset and liability management was first created in response to the needs of bank interest rate risk management. There are many definitions of asset and liability management, and the more general statement can be roughly expressed as follows: in order to achieve its set goals within acceptable risk limits, its assets The process of planning, coordinating and controlling the portfolio of liabilities.

Simply put, the so-called asset and liability management technology in the investment of enterprise annuity funds is to choose an asset portfolio (or a feasible strategy for rebalancing the asset portfolio) to make it as close as possible to the total, type, quantity, and duration of the cash flow from the liability. , Risk matching, and dynamic optimization management in terms of total volume and structure, so as to reduce the risk of interest rate risk and liquidity risk of enterprise annuity fund investment.

For the overall investment activities of the enterprise annuity fund, unless the investment is not made, the risk cannot be completely avoided, but for specific time, specific investment objects and investment projects, effective analysis can be used to achieve greater risk. avoid. However, the effective use of investment risk aversion strategies by enterprise annuity funds requires a certain breadth and depth of the capital market. The breadth and depth of the capital market are mainly manifested in two aspects. One is the market size and the basic prerequisites for enterprise annuity funds to avoid risks. Without a certain market size, huge enterprises will find it difficult for funds to make suitable choices in a limited capital market and avoid risks that they cannot bear or are unwilling to bear. The second is the market structure. The market structure refers to the proportional relationship of various financial products, including various financial derivatives. A reasonable market refers to the balanced development of various financial products. It has many basic financial derivatives that can meet the investment needs of investment funds. However, from the current situation of China's capital market, there is still a certain gap. The specific performance is as follows: first, although the total market value of China's securities market is close to 50% of GDP, the marketable market value is much lower than the scale of securities markets in developed countries such as Europe and the United States; This is less than 1/10 of the developed countries in Europe and the United States. Third, China's bond market and currency market are immature and separated from the stock market.

According to the different restrictions on the entry requirements of corporate annuity management agencies in various countries, there are two main ways to monitor the market access of corporate annuity management agencies in foreign countries: one is a strict access restriction model, and the government regulatory authority issues the qualifications of the management agency Identified that only those who have passed the qualification certification of the regulatory authority can be regarded as the enterprise annuity management agency; the other is to develop a standard through government legislation or non-governmental organizations (such as the enterprise annuity association). mechanism. Since China is in the initial stage of the market-oriented operation of enterprise annuity fund investment, whether it is the economic, legal, and market system of enterprise annuity fund development, or the external operating environment of fund investment, a process of gradual establishment, standardization and improvement is required. Therefore, it is necessary to strictly monitor the market access of various annuity management institutions, especially professional investment institutions, and select institutions with high reputation, sound internal management rules, effective internal risk control systems, and sound business management

systems. Enterprise annuity management agency.

In summary, although the above risk control strategies are all successfully applied abroad, it is questionable how much they can play in China's capital market. The crux of the problem lies ultimately in China's institutional environment. Therefore, how to improve the institutional environment for the investment of Chinese enterprise annuity funds, improve the legal system, and improve the capital market have become the key issues that determine whether enterprise annuity funds can effectively conduct investment risk management. In any case, the advanced ideas and concepts reflected in the above risk control strategies are of great significance to the enterprise annuity fund investment risk management.

#### **4. Conclusion**

The specificity of enterprise annuity funds determines that the investment management of enterprise annuity funds is different from the management of other investment funds, but this difference is not reflected in the basic investment procedures, but in the implementation of basic investment procedures, such as the formulation of investment objectives Choice of strategy, decision of asset allocation and so on. Understanding these micro-operational characteristics will help improve the investment performance of corporate annuity funds.

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