Nationalisation, Bridge Institution and Restructuring
Anbang Insurance Group (2018)

Background and context

Anbang Insurance Group (Anbang or the Group) was a large conglomerate with more than CNY1.97 trillion ($278.1 billion) assets in February 2017, servicing 35 million policy owners and employing over 30,000 staff worldwide. The Group provided extensive financial services covering life insurance, general or property and casualty insurance, health insurance, pension insurance, insurance brokerage and agency sales, banking, asset management as well as leasing. Its key subsidiaries were:

- Anbang Property & Casualty Insurance Company Limited (APCIC);
- Anbang Life Insurance Company Limited (ALIC);
- Hexie Health Insurance Company Limited (HHIC);
- Anbang Pension Insurance Company Limited; and
- Anbang Asset Management Company Limited (AAMC).

In 2017, Anbang was 139th in the Fortune Global 500 rankings, while ALIC was ranked third among the life insurers in China with 9% market share.

In 2004, Wu Xiaohui (Anbang's Chairman and CEO / Chairman Wu) founded Anbang as a regional car insurance company. APCIC launched its first branch in Beijing and opened another 22 branches including Liaoning and Fujian in 2005 to lay its business network nationwide. In 2008, APCIC was the first general insurer in China allowed to conduct telemarketing in all provinces of the country via 37 branches. Anbang continued to expand aggressively by establishing ALIC, acquiring Ruifu Health Insurance Company Limited (later renamed to HHIC) in 2010, and establishing AAMC together with Hexie Insurance Sales Company Limited and Beijing Ruihe Insurance Broker Company. The Group also acquired a 35% stake in Chengdu Rural Commercial Bank. By 2013, Anbang was able to offer the entire spectrum of insurance services after obtaining the licence to underwrite pension insurance in China.

From 2014 to 2017, Anbang increased its paid-up capital and grew rapidly overseas through a series of acquisitions. This included acquiring Belgian insurer Fidea Verzekeringen and a 57.5% stake in Tongyang Life Insurance from Korea. This period also saw Anbang purchasing or investing in other entities, such as Belgian Delta Lloyd Bank, Dutch insurer VIVAT, Allianz Insurance Korea, the Waldorf Astoria Hotel in New York, Bentall Centre office complex and Retirement Concepts (largest retirement homes business in Canada), Strategic Hotels & Resorts Incorporated which owned luxury hotels in US (e.g. Loews Santa Monica Beach Hotel, JW Marriott Essex House in New York and Four Seasons in Washington) as well as residential properties in Japan's major cities. Meanwhile, the Group also held substantial stakes in 20 major listed companies in China.

Anbang was considered as one of China's most politically connected companies by virtue of Chairman Wu's third marriage to Deng Xiaoping's granddaughter. He also had the backing of Chen Xiaolu, the son of Marshal Chen Yi.[90] However, there were also those who opposed Chairman Wu such as Wang Qishan – the former, head of China's anti-corruption body and a close associate of President Xi Jinping – who was appointed as Vice President in 2018.

Rarely in corporate history has a giant (Anbang) come and gone so quickly ... China's government takes control of its would-be financial colossus

The Economist

Unsound business model and gross mismanagement led to Anbang's downfall

Anbang's fundamental business model was flawed and unsustainable. It relied on wealth management products for funds by selling risky, high yielding short term saving products that promised returns in excess of bank deposits. Most of these products were widely sold to retail customers under the guise of insurance products by including some basic life protection elements. To meet high guaranteed yields, the Group took huge risks by allocating close to one fifth of its long-term investments in equities and exposing Anbang to significant market risk from the volatility of the stock market. By comparison, the industry average for investments in equities was less than 5%. The Group's aggressive investment strategy also saw it placing another 19% of investments in redeemable short-term loans provided through trusts (an opaque area of shadow banking in China), as well as overpaying for illiquid real estate investments, including luxury hotels in the US.

Anbang also ventured into unfamiliar territory through acquisitions of loss-making entities in new markets. For instance, the purchase of VIVAT (a troubled state-owned insurance company) from the Dutch government required Anbang to recapitalise VIVAT with between €770 million – €1 billion ($863.4 million – $1.23 billion) in fresh capital, as well as to assume debts amounting to €550 million ($678.4 million).

These concerns were underpinned by weak governance and risk management control functions, which led to gross mismanagement and fraud at the highest level of the Group. In June 2017, Chairman Wu was arrested and charged with fraud for falsifying documents and deceiving regulators in 2011 during the process of obtaining the licence to sell insurance products. This included overselling insurance products worth CNY724 billion ($102.2 billion) and diverting CNY65 billion ($9.2 billion) of premiums to companies controlled by Chairman Wu for overseas investments, debt repayments and personal use. In addition, it was alleged that premiums from the sale of insurance policies had been used to inject capital into Anbang to maintain an appearance of the Group's stable financial position.

In the next 10 years (from 2015), Anbang will have subsidiaries on every continent and it will be a global holding company ... by then, Anbang's asset scale will exceed your imagination

Wu Xiaohui, former Anbang Chairman and CEO

[90] A communist hero in the civil war and early member of Anbang's Board of Directors

Resolution actions

Resolution of Anbang – Timeline of Key Events

Feb 2018
China Banking and Insurance Regulatory Commission (CBIRC) assumed control for a year.

Set-up an Interim Management Working Group to manage Anbang and continue business operations.

Apr 2018
China Insurance Security Fund (CISF) recapitalised Anbang.

May 2018
Chairman Wu sentenced to 18 years' imprisonment for fraud and embezzlement.

Feb 2019
Extension of assumption of control by CBIRC for another year.

Jul 2019
Established Dajia Bridge Institution to take over Anbang's core business – life, general, pension and asset management.

Sep 2018-Mar 2020
Restructured Anbang via divestment of strategic investments such as Century Securities, Bentall Centre, Fidea Verzekeringen, HHIC and Chengdu Rural Commercial Bank.

Feb 2020
CBIRC ended the assumption control of Anbang and was sourcing strategic partners for Dajia.

Sep 2020
Anbang to apply to CBIRC for dissolution and liquidation.

On 23 February 2018, CBIRC assumed control of Anbang for a one year period pursuant to Article 144 of the Insurance Law due to violation of regulations that seriously threatened Anbang's solvency.[91] To provide more time for the resolution, the CBIRC extended the assumption of control over Anbang for another year to February 2020. An Interim Management Working Group (IMWG) was established to manage Anbang's assets, liabilities and affairs while business operations continued. The IMWG – comprising key officials from CBIRC, the People's Bank of China (PBOC) and other financial regulators and government bodies – was responsible to restructure Anbang, improve its corporate governance, contain further deterioration in its financial position, and perform a comprehensive review of its assets and business lines.

As an immediate measure to safeguard financial stability, protect the interests of Anbang's policy owners, strengthen its solvency position, and maintain smooth business operations, on 4 April 2018, CBIRC granted approval for the IGS – CISF to inject fresh capital amounting to CNY60.8 billion ($8.6 billion) into Anbang. As a result, Anbang was nationalised with CISF owning 98.2%. The other two shareholders were state-owned entities, namely Shanghai Automotive Industry Corporation and China Petrochemical Corporation, which held interests of 1.2% and 0.6%, respectively.

The decision to recapitalise Anbang was crucial to avoid it from collapsing and spreading contagion across the financial system, given Anbang's interconnectedness with the banking system and large corporates such as property developers. For instance, it held substantial stakes in China Minsheng Banking Corporation Limited and China Merchants Bank Company Limited, as well as China Vanke Company Limited and Gemdale Corporation. Without the government rescue, policy owners would face the prospect of losing insurance coverage (life, annuity and medical), and bearing losses from insurance claims that had yet to be honoured. Moreover, business and economic activities would be disrupted by the sudden discontinuance of Anbang's general insurance coverage for areas such as motor, fire, engineering, workers' compensation, professional indemnity and liabilities.

In May 2018, Chairman Wu was sentenced to 18 years' imprisonment for financial fraud and embezzlement of CNY75.2 billion ($10.6 billion). Meanwhile, Xiang Junbo, the previous Head of the China Insurance Regulatory Commission (CIRC), pleaded guilty to abuse of power by issuing operating licences to favoured insurers and soliciting bribes of CNY19.4 billion ($2.8 billion). In April 2018, the CIRC was absorbed into the China Banking Regulatory Commission to form a new entity, the CBIRC.

In July 2019, Anbang's business operations were taken over by a newly established company, Dajia Insurance Group (Dajia meaning "everyone" in Chinese) with a paid-up capital of CNY20.4 billion ($2.9 billion). Utilising a bridge institution (BI), four new entities were set up to acquire different parts of Anbang's core businesses comprising life insurance, general insurance, pension insurance and asset management.

[91] China's Insurance Law stipulates that an insurer could be taken over by regulators if it was insolvent or undertaking illegal activities that threatened its solvency and harmed public interests

Dajia's shareholding structure mirrored Anbang, as existing shareholders injected fresh capital (in the form of cash) to match their respective stakes. By 22 February 2020, the IMWG had successfully restructured and stabilised Anbang by way of recapitalisation, transferring its core businesses to the BI, and divesting domestic and overseas investment assets (as summarised below). Going forward, the CBIRC would also source strategic investors for Dajia. In July 2021, it was reported that sale of the 98.78% stake in Anbang had attracted interest from six consortiums.

The CBIRC has ended its two-year takeover of Anbang. As of January 2020, the financial insurance issued by Anbang (before being taken over) of CNY1.5 trillion ($211.8 billion) has been fully paid. This has helped the Group to protect the lawful rights and interests of insurance consumers

China Banking and Insurance Regulatory Commission

Table 10: Summary of transactions relating to the sale of Anbang's assets

Date	Description of Transactions	Amount ($)
September 2018	Sold domestic securities brokerage firm Century Securities (91.65%) to Shenzhen Qianhai Financial Holdings Company and Xiamen International Trade Group Corporation.	519 million
March 2019	Sold Bentall Centre office complex in Vancouver, Canada to the Blackstone Group (purchased by Anbang for $1 billion).	Not available
April 2019	Sold Belgian insurer Fidea Verzekeringen via a formal auction process to Swiss insurer Baloise.	543 million
July 2019	Sold HHIC to five companies, including Fujia Group Company Limited (a Liaoning province based petrochemicals and finance conglomerate) which acquired 51% stake.	Not available
September 2019	Sold Strategic Hotels & Resorts Incorporated to Mirae Asset Management (MAM).[92]	5.8 billion
February 2020	Sold residential buildings in Japan's major cities such as Tokyo, Osaka and Nagoya to the Blackstone Group.	2.7 billion
March 2020	Sold 35% owned Chengdu Rural Commercial Bank to Chengdu Xingcheng Investment Group (government-backed investment vehicle in Sichuan).	2.3 billion

Key takeaways

The case of Anbang reinforces the importance of an IGS – in this case the CISF – as a safety net to protect the interest of policy owners and to promote financial system stability. The CISF secured continuity of insurance coverage for policy owners by providing substantial financial support of $8.6 billion to Anbang. This ensured it remained in business to meet claim obligations, service existing policy owners and underwrite new business. The CISF also contributed to Anbang's key resolution initiatives including recapitalisation, establishment of a BI (Dajia) which acquired Anbang's insurance businesses, and sourcing for new strategic investors in Dajia.

The decision to resolve Anbang via nationalisation reflected its systemic importance and the risk of contagion from its failure to other parts of the Chinese financial system. This includes the level of interconnectedness between Anbang with the banking system and large corporates. Anbang was also sizeable, ranked third among Chinese insurers in the first half of 2017 with assets of close to $300 billion. Some effects of Anbang's failure include the strong signal sent on corporate governance, as part of the anti-graft campaign initiated by President Xi, as well as strengthening regulatory oversight of the financial system.

Anbang's resolution should be seen in the light of the Chinese political economy, as well as continuing actions by regulators to tackle financial risks in China (preceding the failure of Baoshang Bank and troubles in other Chinese banks in 2019 and 2020). In July 2020, it was reported that the CBIRC took over another four troubled insurers, including Huaxia Life which has an asset size of about $85 billion and 500,000 employees. During that time, regulators also seized control of another five entities (two securities brokers, one futures company and two trust companies).

[92] In May 2020, MAM aborted the deal due to Anbang's failure to disclose about a lawsuit for one of the target hotel's ownership, questions regarding titles to certain hotels and the value of properties which have been eroded by the Covid-19 pandemic. A legal suit was initiated by Anbang against Mirae. In December 2020, the Delaware Court of Chancery ruled in favour of Mirae on the ground that Anbang made extensive changes to its hotel business because of COVID-19 and failed to meet the condition that business be "conducted in the ordinary course of business"