The Development of Institutional Investors in China and Its effects on Corporate Governance

Ⅰ. Introduction: Role of institutional investors in improving corporate governance

1. Company evaluation and stock pricing (sophisticated investors)
2. Make proposals (active investors)

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Ⅱ. The situation of institutional investors in China

1. Investment funds as of the end of 2001:

    48 closed-end funds

    3 open funds

    80 billion RMB market value

    14 fund management companies

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2. Insurance companies -- do not directly invest in stock

As of the end of 2001:

52 insurance companies

(5 solely state-owned companies,

15 shareholding companies,

19 joint ventures, and

13 branches of foreign companies)

46 billion RMB invested indirectly in stock

(largest investors in closed-end funds)

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3. Pension investment

- China has not yet established a sound pension system, but it is working to do so.
- Pensions are potentially the biggest investors in the stock market.
- Starting from 2001, China’s Social Security Fund began to invest in stock

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Ⅲ. Obstacles to developing China's institutional investors

- Check-approval admission system for funds and fund management companies (ownership discrimination, lack of competition, dishonesty)
- Bad governance and poor internal control of funds and fund management companies

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Ⅳ. Policy suggestions

1. Adjust the check-approval system
2. Improve governance and internal controls
3. Improve regulation and supervision
4. Marketization of stock pricing
5. Cumulative voting system