

Trial Analysis of the Development of China's Commercial Banks' Wealth Management Business and Its Countermeasures

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Abstract

In recent years, China's economy has been developing rapidly, and domestic investors' concept of financial management has been increasing, as well as the demand for financial products. Domestic commercial banks have continuously responded to this phenomenon by continuously launching new wealth management products and enriching the number of wealth management products, and the Chinese wealth management market has successfully stepped into a stage of rapid development. In April 2018, the People's Bank of China came out with new regulations on asset management to support foreign legal financial institutions to enter the Chinese market, which is not only conducive to learning from foreign advanced experience, but also promotes the healthy and sustainable development of the domestic financial market, and Chinese commercial banks' wealth management business is facing new development opportunities. As an important intermediary business of banks, the development of banks' wealth management activities generally reflects the trend of continuous enrichment of investment varieties and expansion of financial market scale, and while it plays a positive role in broadening investment channels and improving business models, there are also many problems. This paper analyzes the development status and problems of commercial banks' wealth management business with a view to providing some policy suggestions to commercial banks, investors and regulators.

Keywords: commercial banks, financial services, new regulation of capital management

1. Introduction

Since the development of reform and opening up, China's economy has been growing rapidly and the income of residents has been increasing. The

willingness of individual residents to invest in financial products has also been increasing, and the demand for financial products has also been growing, and people generally want to make good

use of their family assets and invest in various financial products to obtain higher income. However, the financial crisis in 2008 fully illustrated that the returns of financial products are always linked to risks, so most investors turn their investment methods to relatively stable investment products such as bank wealth management. By the end of 2020, the market size of bank wealth management has been 25.86 trillion yuan, an increase of 6.90% compared with the same period, and the market development potential of bank wealth management business is huge.

Since 2020, financial institutions have faced tremendous pressure to regulate and transform their capital management business under the impact of the COVID-19. Based on this, with the consent of the State Council, the transition period for the new regulations on capital management ends at the end of 2021. The new regulation of capital management has so far gradually introduced the regulatory policies related to bank wealth management and the supervision system related to wealth management business. In the process of improving the financial system of banking industry, the transformation direction and mode of wealth management business development are gradually clear. These policies

and regulations also reflect many problems in the management of commercial banks' wealth management in China, which will seriously affect the healthy and standardized development of commercial banks' wealth management market in the long run. Therefore, it is important to study the current situation of the development of China's commercial banks' wealth management business and the existing problems, and to explore effective countermeasures to solve these problems to ensure the healthy development of China's financial market.

2. Related Concepts

2.1 The Meaning of Wealth Management Business

Commercial banking business refers to the commercial banks' collection of data information on investors' assets, income and liabilities, and suggesting the optimal investment portfolio and financial plan for them according to their requirements, hopes and goals, etc., so as to help investors achieve wealth appreciation to the greatest extent.

2.2 Classification of Wealth Management Business

The classification of commercial banks' wealth management business can be divided into the following categories:

Table 1. Classification of commercial banks' wealth management business

Classification Criteria	Category
By the type of currency of the financial management business	Divided into RMB wealth management and foreign exchange wealth management
Different ways to distribute investment income after maturity according to investors' investment in financial products	Divided into fixed-rate products and floating-rate products
By the duration of the investor's investment in financial management	Divided into short-term, medium-term, long-term, and unlimited rolling periods
According to whether the investor's investment capital will incur a loss	Divided into principal-protected products and non-principal-protected products
According to whether investors can withdraw their purchased financial products by pledging them for cash	There are collateralizable products and non-collateralizable products.

3. Development History and Status of China's Commercial Bank Wealth Management Business

3.1 Development History

The development history of the wealth management business of Chinese commercial banks consists of four general stages:

3.1.1 Start-up Phase

Prior to 2004, the number of commercial bank wealth management products issued in China was relatively small, and the product range was also very homogeneous, and the scale of wealth management issuance was also very small; it was only in September 2000 when foreign exchange wealth management products were developed and started to be sold in China that Chinese commercial bank wealth management products slowly began to develop. At the beginning of the development of wealth management business, customers had little choice of wealth management products, but bank wealth management products had a high rate of return and moderate risk at that time, and they were soon attracted by the public. However, at that time, there was a lack of research on the design of financial products, and each customer had relatively little choice.

3.1.2 Introductory Phase

From 2004 to 2006, the improvement of national economic situation and favorable policies have made the demand for wealth management products more robust. The qualification of domestic RMB wealth management has been allowed to be owned by commercial banks since 2004, and many banks have started to develop wealth management products and actively carry out financial services, and the RMB wealth management market is gradually heating up.

3.1.3 Development Stage

During the period from 2006 to 2012, the CBRC introduced a number of systems to regulate the sales and qualifications of wealth management business personnel, and bank wealth management business developed rapidly. Wealth management products were popular among investors and demand for wealth management was strong. Various banks launched wealth management products and quickly occupied the wealth management market. At this time, the number and scale of bank wealth management products doubled, the investment direction became increasingly rich, the types of institutions were continuously refined, the cooperation mode was diversified, the liquidity was flexible and the risk control system was gradually improved.

3.1.4 Reform and Deepening Development Stage

In 2012 until now, China has promulgated and implemented a series of management methods. In particular, *the Guidance on Regulating the Asset Management Business of Financial Institutions (Draft for Comments)*, released on November 17, 2017, has sparked lively discussions in the community. On April 27, 2018, *the Guidance on Regulating Asset Management Business of Financial Institutions* was officially released. A series of related policies and regulations have been officially announced in the following months. In 2020, the regulators have introduced a series of regulatory systems for the wealth management market and further improved the regulatory rules. *The Measures for the Management of Net Capital of Commercial Bank Wealth Management Subsidiaries (for Trial Implementation)* came into effect in March 2020, and in September 2020, *the Central Bank issued the Measures for the Implementation of the Protection of the Rights and Interests of Financial Consumers of the People's Bank of China*. This series of management measures has further regulated the sale of wealth management products, strengthened risk supervision, and made the development of the banking industry's wealth management business more mature.

3.2 Development Status

3.2.1 Steady Development on the Scale

The wealth management business of Chinese commercial banks has developed steadily, and it can be concluded from the data in Figure 1 that the surviving products and book balance of wealth management products of Chinese commercial banks have increased every year in the years from 2013 to 2017, especially in 2017, there was a peak of 93,500 surviving products and book balance of RMB 29.54 trillion. However, after the release of the "new regulations on asset management", the growth trend of bank wealth management from 2018 onwards, under the influence of strict regulation and capital constraints, the scale of growth has decreased. China's new regulations on asset management and wealth management have been released and landed, indicating the direction of further development for bank wealth management business. Since the beginning of 2019, the scale of wealth management has been stable and growing steadily, and at the beginning of 2020, it used to maintain a year-on-year growth rate of more than

10%, showing a good trend of sustainable development, with overall stability and no significant fluctuations. Under the new regulatory rules, China's bank wealth management business will develop more standardized and healthy.

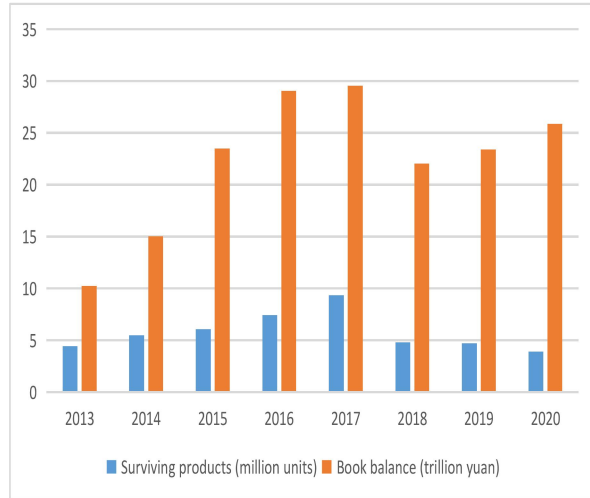


Figure 1. Balance of wealth management products in China's banking industry (2013-2020)

Data source: China Banking Wealth Management Market Annual Report (2013-2020)

3.2.2 Major Asset Allocation Is Mainly in Bonds

Commercial banks account for the vast majority of bond assets in their wealth management business, and by the end of 2020 bond assets held by wealth management products, interest rate debt

investment balance of 2.24 trillion yuan, accounting for 7.77% of total investment assets; credit bond investment balance of 13.77 trillion yuan, accounting for 47.75% of total investment assets, accounting for 4.24 percentage points higher than the same period last year. The risk appetite for bond investment in wealth management products declined. At the end of 2020, the size of highly rated bonds rated AA+ and above held by wealth management products reached 11.48 trillion yuan, accounting for 83.36% of the total credit bond position, up 2.15 percentage points year-on-year.

3.2.3 Bank Wealth Management Is Dominated by Public Offering Products

In 2020, the total annual amount of funds raised by publicly-offered wealth management products was 122.84 trillion yuan, accounting for 98.62% of the total annual amount raised; the total annual amount raised by private placement products was 1.72 trillion yuan, accounting for 1.38% of the total annual amount raised. By the end of 2020, the balance of public offering wealth management products in existence at the end of the year was 24.75 trillion yuan, accounting for 95.71%; the balance of private wealth management products in existence at the end of the year was 1.11 trillion yuan, accounting for 4.29%. At present, public offering wealth management products are the absolute mainstay of bank wealth management.

Table 2. Issuance and survival of wealth management products in different collection forms in 2020

Product Type	Total amount raised for the year (trillion yuan)	Annual total amount raised as a percentage (trillion yuan)	Balance on deposit at the end of the year (trillion yuan)	Balance at year-end as a percentage of surviving balance
Public Offerings	122.84	98.62%	24.75	95.71%
Private Placement	1.72	1.38%	1.11	4.29%
Total	124.56	100.00%	25.86	100.00%

Data source: Annual Report on China Banking Sector Wealth Management Market 2020

3.2.4 Issuers Are Mainly Large State-Owned Banks and Joint-Stock Banks

The issuing side is dominated by large state-owned banks and joint-stock banks, and from the data in Table 3, there were 331 banking institutions with wealth management products in existence nationwide at the end of 2020, with a balance of 19.19 trillion yuan in existence. Wealth management products of state-owned banks and joint-stock banks dominate the Chinese banking industry. In the balance item, the combined fund

balance of wealth management products of large state-owned banks and joint-stock banks accounted for more than 72% of the total balance. Large state-owned banks and joint-stock banks have obvious advantages in terms of capital strength and customer resources, while small and medium-sized banks, mainly regional banks, have a relatively small share of the wealth management market share.

Table 3. Overview of banking institutions in the wealth management market at the end of 2020

Type of banking institution	Quantity	Balance (trillion yuan)	Market share(%)
Large Banks	6	5.97	31.11
Joint Stock Bank	12	7.98	41.58
City Commercial Bank	122	4.07	21.21
Rural Financial Institutions	175	1.09	5.68
Foreign Banks	16	0.08	0.42
Total	331	19.19	100

Data source: China Banking Industry Wealth Management Registration and Custody Center

3.2.5 Investors Are Mainly Individual Investors

Individual investors are the absolute main force of the wealth management market. From the data in Table 4, among the bank wealth management investors, individual investors dominate compared to institutional investors. By the end of

2020, there were 41,624,800 investors holding wealth management products in the domestic market, of which the proportion of individual investors accounted for 99.65% and institutional investors accounted for 0.35%. It can be seen that the main audience of the current wealth management market is still individual investors.

Table 4. Distribution of types of financial investors in China at the end of 2020

Investor Category	Number of investors (million)	Percentage of total amount held by investors
Personal	4148.10	99.65%
Institution	14.38	0.35%
Total	4162.48	100%

Data source: China Banking Industry Wealth Management Registration and Custody Center

4. Problems of Wealth Management Business of Commercial Banks in China

4.1 Serious Product Homogenization

Although the number of Chinese commercial banks' financial products is large, the financial products issued by each commercial bank only differ in terms of term and yield, but other factors

are very different, and homogenization is a common phenomenon. The brands are different but most of them are just inconsistent in name, but the substance is similar, so it is difficult to bring a new product experience to customers. From Table 5, it is easy to see that Chinese commercial banks

have a high degree of similarity in their financial products and cannot attract customers by their own single brand alone. As a result, no matter what wealth management products customers choose, there is little difference and it is difficult to maintain customers.

Table 5. Introduction of wealth management products of some major banks in China

Banks	Brands	Financial Products
Industrial and Commercial Bank of China	Wealth Management Gold Account	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
Agricultural Bank of China	Golden Key Money Manager	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
China Construction Bank	Le Dangjia	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
Bank of China	BOC Finance Access	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
Bank of Communications in China	Bank of Communications Wealth Management	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
China Merchants Bank	Sunflower Money Manager	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products
Minsheng Bank	Sunshine Banking	Funds, insurance, bank deposits, loans, RMB wealth management products and other foreign exchange wealth management products

Data source: China Money Network

4.2 Product Market Segmentation Is Not in Place

The segmentation of China's financial product market is still in the primary stage, and the segmentation of products is still simply divided according to the age and residential address of investors, without achieving personalized and targeted services, and even less able to do

according to the deeper characteristics of customers. Take a simple example of customer asset level, there is almost no segmentation of customer asset level in Chinese commercial banks, and customer asset level is simply divided into ordinary customers and senior customers. Commercial banks in other countries subdivide

customer asset levels along with a more detailed division of customer asset types.

The design of wealth management products is constrained by the geographical nature of China, in addition to the limitations of the division of business. In many large banks in China, the head office is responsible for designing wealth management products, and regional branches only have the right to sell them. However, there are differences in the economic development of each region, so financial products should also have corresponding regional characteristics to meet local needs. For example, for economically backward regions, conservative financial products can be designed and developed, while for developed coastal regions, commercial banks can design and develop new financial products related to financial derivatives. However, in fact, since the headquarters is responsible for the overall design of financial products to the extent that regional disparities are ignored, the development of the financial market is restricted.

4.3 Lack of Highly Qualified Financial Management Personnel

While China's wealth management market is booming, there are few high-end wealth managers, so China's bank wealth management business is unsound in some aspects. Moreover, most of the bank financial managers nowadays are not of high professional quality to provide professional financial services, although they are called great. Professional financial management personnel should not only know traditional financial products, but also be familiar with emerging financial products and be able to keep abreast of the latest developments at home and abroad to provide professional advice to customers. At present, the sales of financial products in Chinese commercial banks are mainly carried out by counter sales staff, who have only received simple training and have not systematically and comprehensively studied and come into contact with the relevant knowledge, and simply introduce financial manuals to customers, who cannot fully understand the products. As the structure of wealth management products becomes more and more complex, wealth management staff must have a very high level of knowledge to better serve customers and propose useful investment solutions for them. It can be

said that one of the main situations that Chinese banks are currently facing is the lack of highly qualified financial management personnel.

4.4 Inadequate Risk Control

The development of risk control management in China's commercial bank wealth management business is later than internationally, and there are still irregularities in the management of China's commercial bank wealth management activities now. From the data compiled on various sales misleading situations, the first ranking is avoiding downplaying risks, followed by exaggerating returns, and the third is selling wealth management products that are not consistent with customers' risk tolerance. It can be seen that there are many compliance problems in the sales of bank financial products, and bank employees' risk awareness is relatively weak, and sales compliance needs to be further strengthened. Customer risk assessment is also formal. In the risk control management of financial services in the banking industry, customer risk assessment plays an important role as an umbrella before the sale of products and plays an important role in the accurate allocation of suitable financial products. The content of the risk assessment is mainly: the customer's life cycle; the customer's financial situation; the customer's risk tolerance, and matching out suitable financial products. However, in practice, due to the pressure of performance, account managers often sell products that do not match the risk of customers, which will seriously lead to losses of customers or banks.

5. Suggestions for Countermeasures

5.1 Recommendations for Commercial Banks

(1) To increase the customization and innovation of personal financial products, commercial banks should build a brand-oriented business model and a customer-oriented marketing concept, pay attention to financial market trends, and continuously increase investment in financial technology and product design development. They should respond to customer needs, constantly segment the market, and innovate financial products with brand personality to ultimately meet market trends and investor needs, so that financial services can gain advantages in competition.

(2) When financial products are designed

scientifically and rationally, attention should be paid to changes in economic policies, especially the influence of external macroeconomic factors dominates, which requires commercial banks to continue to pay attention to national economic development, especially changes in interest rates and exchange rates, and fully consider policy orientation and economic development trends.

(3) Timely disclosure of information on various financial products provides investors with a better understanding of the products and promotes a more professional, transparent and healthy development of the financial products market.

5.2 Advice to Investors

(1) First of all, investors are to actively learn financial-related knowledge, especially the theory of financial product yields, and secondly, to pay attention to the risk factors of financial products in order to balance the relationship between risk and return.

(2) Before purchasing financial products, carefully analyze the internal and external factors that affect the expected yield of the product, investigate the nature of the issuing bank, determine the reasonableness of its yield price, and purchase with caution. From your own economic conditions and risk appetite, further clarify your self-risk tolerance and invest your money reasonably.

5.3 Recommendations to Regulators

(1) According to the current economic environment and the real-time dynamics of the domestic financial market, we will establish a timely and accurate supporting system, introduce a series of relevant regulatory policies, further increase the support for the financial management activities of commercial banks, continuously monitor the dynamics and real-time effects of the policies, and take appropriate measures according to the situation to promote the sustainable development of the financial market.

(2) The regulation of wealth management products should be further strengthened and the market of wealth management products should be further regulated. Graded regulation can be implemented, with different registrations and differentiated regulatory policies based on the strength of banks.

(3) Further improve the internal and external

regulatory system of financial institutions, use dynamic regulatory mechanisms, and urge financial institutions to establish a good risk rapid warning mechanism and internal and external coordination and liaison mechanisms to adapt to a more regulated financial product market, in line with the path of efficient and healthy development of financial products.

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