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Transformation Measures of Bank Financial Management Business under the New Regulations of Asset Management

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Abstract

Financial management business is an important part of the banking business module, which has brought new profit growth points to commercial banks. However, with the development of financial management business, banks have more and more risks caused by rigid cashing, multi-layer nesting and information blocking. Therefore, this paper will analyze the bank financial management business from the perspective of the new asset management regulations, and give some suggestions to avoid such problems.

Keywords

Bank; New Regulations on Asset Management; Financial Management Business; Transformation and Development.

1. Introduction

As an important part of China's asset management industry, after nearly 20 years of rapid development, bank financial products have accumulated potential risks, such as rigid cashing, multi-layer nesting, fund pool operation, etc. in April 2018, China issued the guidance on standardizing the asset management business of financial institutions (hereinafter referred to as the "new asset management regulations") to strengthen supervision in response to problems, Promote its standardized and healthy development, and promote the bank's financial management business to enter a new stage of transformation and development.

2. Background of New Regulations on Asset Management

China's asset management industry was liberalized in 2012, which was accompanied by the vigorous development of banks' financial management business. By the end of 2017, the financial management balance of China's banks was 29.54 trillion, and the number of financial products of 562 financial institutions was 93500. Financial management business is an asset business with explosive growth of China's banks in recent years, It is also the fastest growing business among many banking businesses. The growth of bank financial management business continues to expand the bank's profits and attract idle funds circulating in the public. Then, the Department's funds are managed by stacking leverage and multi-layer nesting of peers, so as to obtain profits. However, with the vigorous development of financial business, there are many problems that can not be ignored in today's market [1]. There are some bad activities in China's asset management business, such as non-standard operation, multi-layer nesting among peers, rigid cashing and so on. This makes the superior departments issue a series of regulations to regulate the bad activities of bank financial management business. After soliciting opinions publicly and receiving feedback from the market at the end of 2017, the guiding opinions on regulating the asset management business of financial institutions (YF No. 2018106) was officially announced on April 27, 2018 (hereinafter referred to as the new asset management regulations).

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3. Analysis of the Core Points of the New Asset Management Regulations

The purpose of the new regulations on asset management is to standardize the financial order of the asset management industry and strengthen the prevention and control of risks. At the same time, it can be seen from the regulations of the new regulations on asset management that the introduction of the new regulations aims to require financial institutions to return to the concept of "sellers are responsible and buyers are responsible", rather than the previous concept of "receiving trust and managing money on behalf of others", which requires investors to have a stronger risk awareness and investment awareness. Compared with the relevant regulations publicized in the past, the proposal of the new asset management regulations is comprehensive. While proposing the prohibitive provisions, it also stipulates the numerical line that can be used as a standard, which puts forward more clear requirements for the implementation of supervision[2]. The new asset management regulations clarify a series of operation modes of financial institutions when operating asset management business, redefine the coverage of business, relevant standards of products launched, and indicate the investment direction of products. At the same time, in order to enable the market to adapt to the new regulations and make a smooth transition, a third-party trusteeship has been established to give institutions a buffer zone for transition.

4. Essence of Asset Management Business

In general, financing methods can be divided into direct financing and indirect financing. Under indirect financing, investors deposit funds in financial intermediaries and do not know the final investment direction of funds. The most typical way is that depositors deposit funds in banks or policyholders buy insurance policies, and financial intermediaries bear most of the risks. Therefore, regulators put forward provisions on financial intermediaries with venture capital as the core. In the process of direct financing, investors clearly know the final flow of funds and bear their own risks. Therefore, the supervision of financial institutions such as investment banks is basically limited to behavior supervision. In view of the essence of risk-taking, the asset management industry is divided into direct financing, but from the perspective of investment form, it can be roughly regarded as indirect financing. Investors remit funds into asset management institutions through the purchase of collective investment products or tools, and the mastery of their final investment direction mainly depends on the information disclosure of asset management institutions[3]. In direct financing, it needs the support of information disclosure from the financing party, such as asset management and information disclosure of asset management institutions. Due to the trust of investors in asset management institutions, the information disclosure of financing parties is rarely paid attention to, and (public) fund companies generally only list the top ten stocks. The similarity between the relationship between asset management companies and customers and indirect financing is the "holding" long-term relationship. Under direct financing, unless it fails to fulfill its due obligations, investors' losses will not find brokers or underwriters. When asset management institutions cause investors' losses due to violation of the principle of marketability or poor quality of information disclosure, they may be required to "rigid cashing". However, through portfolio management, it can reduce risks, save transaction costs and provide liquidity for customers.

5. The Impact of Financial Management Business of Banks under the Background of New Asset Management Regulations

5.1. Product Form

Adjusting the structure of financial management business and transforming financial products to open and net worth has become an inevitable trend under the background of the new

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regulations of asset management. However, from the current situation, it is found that due to the lack of professionals and the low popularity and acceptance of net worth wealth management by investors, banks cannot complete the net worth transformation on time in accordance with the requirements of the new asset management regulations. Therefore, commercial banks still have a long way to go in terms of product net worth transformation.

5.2. Non Standard Investment Management

After the introduction of the new asset management regulations, the bank's non-standard financial allocation has been limited. Non standard asset investment is one of the channels for banks to obtain benefits. Commercial banks can give full play to their inherent resources (many customers and bank branches, wide sources of project assets and strong risk prevention and control ability), and use non-standard asset investment to deeply tap the resource value owned by banks. However, after the implementation of non-standard regulatory work, we should take measures to limit the amount of non-standard assets allocated to financial products [4]. The new regulations on asset management also further explain the restrictions and strengthen the supervision of non-standard investment of bank financial funds.

5.3. Investment and Research Capability

The new asset management regulations put forward new requirements for the standardized asset investment and research ability of bank asset management institutions, emphasizing investment standardization. In order to meet the relevant requirements, commercial banks need to investigate and study various current policies, analyze the macro-economy and optimize the allocation of large categories of assets. In addition, do a good job in market risk prevention. Cross border capital flows will bring certain risks to commercial banks. Banks need to strengthen the research on exchange rate changes and foreign exchange assets, humbly learn from asset management institutions in foreign developed countries, study each other's working mode, create a management mode in line with their own characteristics, and build a professional investment team for them, Develop the asset management business towards internationalization and specialization.

6. Financial Business Risk of Banks under the Background of New Asset Management Regulations

6.1. Rigid Cashing

The new regulation of asset management is a system emerging under the irregular development of China's financial market, which can regulate the behavior of financial enterprises. Although the document expressly states that any financial institution cannot make rigid cashing, it is not difficult to find that the phenomenon of rigid cashing still exists in real life. Financial institutions have adopted the method of implicit rigid cashing in the transition stage of the new asset management regulations. Rigid cashing is difficult to completely disappear in China's financial market, which may be due to the following reasons: first, the new regulations on asset management were issued in 2018, and the release of documents has greatly limited many behaviors of financial institutions. The regulatory authorities hope to rectify the chaotic financial market through the new regulations on asset management. However, it is found that after the introduction of the new regulations on asset management, many banks choose to avoid documents and use implicit rigid behavior. This is related to the traditional investment concept generally held by investors, and the expectation of "principal and interest protection" for the financial business launched by the bank, which leads to the failure of the bank to make rapid transformation in accordance with the new asset management regulations. Second, financial management business is an important channel for banks' economic source. Driven by interests, banks will trample on the boundary of rigid cashing and

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choose a more obscure rigid cashing method, which has become the method for many banks to deal with the new regulations of asset management. Considering their own interests, banks use the means of "having policies at the top and Countermeasures at the bottom" to make the means of rigid cashing more hidden. In this case, the risk of rigid cashing has not been eliminated, the new asset management regulations are difficult to play a functional role in financial risk response, and the bank asset management business can not really achieve the transformation of financial management on behalf of others and customer risk-taking.

6.2. Cross Infection

There is a risk of cross infection in banks. Cross infection has become a major factor restricting China's financial industry and banks. The reason for the cross infection problem is that the financial products launched by banks use multi-layer nesting and related party transactions. Financial products account for a very large proportion of bank profits. Banks pay great attention to financial products. In order to meet the needs of different types of customers, banks have launched a variety of financial products one after another. With the diversified development of financial products, it is also found that there are related party transactions between financial products, and financial products have certain risks. If multiple products are interrelated, the problem of one of them is bound to affect other products, resulting in chain liquidity risk. The new asset management regulations clearly stipulate that the asset management institution is the first responsible person for asset valuation. The valuation work must follow the principle of substance over form and consistency, implement the work within the specified framework, and do not transfer interests, avoid regulatory requirements, etc[5]. Asset management institutions also need to establish relevant control systems and internal management mechanisms for the valuation work, so as to ensure that the valuation work is carried out in accordance with the specified requirements through audit, supervision and evaluation, complete the valuation risk prevention work and avoid cross infection.

6.3. Information Block

The bank's financial product information is not transparent enough. In this case, the bank has more space to transfer funds. In the case of insufficient supervision, many bank financial products will have non-compliance problems. Because the information of financial products is not transparent and public, there are many adverse factors for external investors and financial markets. It is difficult to quickly find the risks of products and reasonably avoid them, resulting in serious losses. Most banks use the fund pool operation mode, and the funds raised by investment projects and financial products can not match one by one. The bank's use of this operation mode will increase the risk of fund operation, which is inconsistent with the initial purpose of fund-raising and investment. Banks can obtain the advantage of "large-scale" capital through their own re combination, have more choices under the support of strong capital, and obtain regulatory arbitrage from it, and the leverage risk is increasing. In addition, banks have problems in financial products and services. Most business personnel focused on the purchase of customers' financial products, focusing on the introduction of financial products, but did not follow up the information disclosure during the operation of financial products. Investors did not have enough information on investment changes, investment details, risk status and other information, so they could not effectively avoid risks.

7. The Transformation of Financial Management Business of Banks under the Background of New Regulations on Capital Management

7.1. Establishment of Orderly Mechanism for Financial Business

In the context of the new asset management regulations, banks need to follow the requirements of relevant departments and analyze the current financial market environment. Although the

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bank's financial management business has been adjusted in accordance with the document requirements of the new asset management regulations, the previous problems have not been reduced, problems such as rigid cashing still exist, and the financial management business still has the characteristics of vicious disorder. In order to occupy more market share in today's increasingly complex competition, many banks in China choose the way of price competition to win customers and obtain hidden benefits by increasing customer groups. The bank's finance has the characteristics of flexibility and can be replaced and converted in different products and financial markets. This working mode once became a common working means of banks, but in the long run, it will increase the leverage ratio and impact the financial market. Therefore, banks need to change the traditional and disordered development model, implement various measures in the document according to the requirements put forward by the new asset management regulations, establish an orderly mechanism for financial business, and cancel financial products with rigid cashing characteristics.

7.2. Financial Business Investment Risk Control Management

After the introduction of the new asset management regulations, banks need to interpret financial policies and position financial services from a strategic perspective. According to the provisions of the new regulations on asset management, it is not difficult to see the determination of the regulatory authorities to break the rigid cashing. To build an orderly financial market, we must solve the remaining problems of rigid cashing [6]. After capturing the development direction of the industry, banks need to timely adjust the rigid cashing and internal financial products of banks, publicize the policy information of regulatory authorities to investors, and make the idea of "sellers are responsible and buyers are responsible" deep into the minds of workers and investors. Reasonably allocate financial business products, build a protection mechanism between products, block commercial risks, accurately divide the bank's self operated business and financial business, and a special asset management subsidiary is responsible for financial business, so as to improve the professionalism of financial business services while completing risk prevention.

7.3. Follow Simple and Applicable Design Principles

During the design of financial products, banks need to collect various data to master the financial innovation, risk factors, risk pricing and other information affecting financial products. Banks need to design financial products from the perspective of investors, take financial needs as the guidance, and design financial products to meet the needs of different investors in combination with the requirements of the new asset management regulations. The financial products launched by banks should meet the needs of investors with different risk gradients, so as to attract financial investors with different risk tolerance. In addition, considering that many investors who buy financial products come from non professional backgrounds, banks need to design simple, intuitive and functional financial products, and establish a network consulting platform to answer customers' questions about financial products, so as to prevent serious problems caused by incorrect information.

8. Conclusion

The new regulations on asset management are documents proposed by relevant departments of the state to regulate the financial market. Banks need to develop financial management business in accordance with the provisions of the new regulations, take policy as the guidance, study the development trend of the industry, complete the structural reform of financial management business, find the root of service entities and complete product transformation, so as to improve their comprehensive ability in asset management, In the increasingly complex financial environment of market competition, it develops healthily and orderly.

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