Study on the Construction of Chinese Investment Banks’ Ability for Asset Management Business

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Abstract
The asset management business is one of most potential business development directions for foreign and domestic Investment banks. The foreign asset management business has accumulated many key successful factors in many aspects such as market competition, professional investment and management. At present, the policy supervision space of domestic Investment banks’ asset management business is being opened, and the competition situation is turning from the asset management product homogenization mode to the value difference mode, and in future, three kinds of ability construction including product design, sales management investment management should be strengthened to form their core competitive advantages to fulfill the market tendency with increasing individualization, capital market integration and product configuration globalization.

Keywords: Asset management, Supervision policy, Ability construction

As a kind of investment financing way under the agent relationship, the asset management business firmly occupies the core status in foreign Investment banks’ incomes because of many characteristics such as renewable capability of charge, low risk and high profit margin, and with the stepwise perfection of domestic capital market supervision environment and market conditions, it is being one of most potential business development directions for domestic Investment banks in China. Therefore, it is very important to discuss Chinese Investment banks’ ability construction of asset management business.

1. Key successful factors of the asset management business
The asset management operation possesses many common characteristics such as relatively independent operation, non-transparent information disclosure and individualized asset management. The clients’ capital scales, investment requirements, risk endurance abilities and tax status are different. Through about thirty years’ flourish development, the foreign asset management business has been divided into multiple types and modes, and its successful key factors include following aspects.

(1) As viewed from the participating subjects, the competitive subjects of the asset management business are numerous, and the market competition is increasingly drastic.

From the participating subjects of foreign and domestic asset management, securities company, trust company, insurance company and commercial band all utilize their own advantages to set feet in this domain, and the competition is more and more drastic, and the boundary is more and more blurry. Domestic banks have formed obvious advantages in the investment of fixed income product, and the trust institutions have accumulated abundant investment experiences in many investment domains such as real estate, high-technology and energy traffic, and Investment banks’ biggest advantage is in the products with high-risk benefit such as stock, close-ended fund, and derivatives. With the increasingly drastic competition, the asset management businesses of various finance institutions will filter each other more and more obviously.

(2) The management separates with operation to ensure the professional financing and expert management and fully fulfill the requirement of market segmentation.

Foreign investment banks generally set up the asset management department in its headquarters of the company, but the department only assumes the functions of harmony and management, and the concrete business is taken by its own subsidiary company or its own fund company. However, domestic Investment banks all manage the asset management business by the interior asset management department, and comparing with that, foreign separation management mode has following advantages. First, the “umbilical cord” between the asset management business department and the
company is cut, which can increase the management pressure of the management layer, and make the management layer to try to enhance the management performance, continually develop the business scale and acquire higher incomes. Second, the management risk can be insulated, and the large harm to the Investment bank can be avoided. Third, the financial license effect can be more easily exerted to attract more exterior capitals and acquire the influencing power from the market. Fourth, the specialization of the capital operation and the asset management can be improved in order to form subsidiary companies’ special characters and fulfill different clients’ demands.

(3) The main subject of the asset management investment changes with the development of the financial market.

The early foreign asset management invested the concrete commodities directly, and gradually turned to the securities about concrete material assets. With the full development of financial derivative products in 1960s and 1970s, many investment varieties and investment combinations derived from the asset management business by combining the securities with derivative products to fulfill clients’ different income risk demands. The domestic asset management investment domain is still narrow, and it is mainly limited in stock and the products with fixed incomes, and many financial derivative products such as option, futures, swap and exchange still lack, and the Investment banks cannot disperse the risk of asset management business by the market method, which also blocks the development of Investment bank’s asset management business.

(4) The asset management business is more and more combining with other internal departments of the company, and other financial institutions, and other financial products and services.

The development of the asset management business is decided not only by the asset mangers’ individual ability and level, but by the comprehensive strength and the harmony of interior resources of the company, and the transfer and utilization of the exterior resources. Different with the “seller” character of other business departments in the company, the asset management business is the Investment bank’s “buyer business”, and it should follow the management concept of “FUND of FUND”, and even the financial group with deeper strength and wide business can not completely fulfill the demands of the asset management business, so the company should various interior and exterior resources and abilities to support the asset management business.

From foreign experiences, the trans-department cooperation is also the important reason for the success of the asset management business. From the domestic development tendency, the comprehensive competition of the asset management business just starts and it still needs to strive to draw out the business value chain of the company by the buyer business, increase and enhance additive values of various seller business lines, and realize the maximization of the total benefits of the company.

2. Development opportunities and challenges in front of Chinese Investment banks’ asset management business

The asset management business of Chinese securities companies has lasted only about ten years, and in the early term, it is mainly embodied in the Investment bank’s commitment financing business, and after 2001, the stock market fell and the Investment bank’s commitment investment loss was increasingly serious, and facing the minimum guarantee article in the contract, the promise of high yield, and clients’ debts recovering laws, many Investment banks got in the corner. At Feb 1 2004, “Client Asset Management Business of Securities Companies Trial Ways” put in force formally, and the Investment banks’ “commitment asset management business” was formally renamed by “client asset management business”. At May 31 2008, China’s Securities Regulatory Commission issued “Integrated Asset Management Business of Securities Companies Trial Procedures” and “Detailed Implementing Rules for Specific Client Asset Management Business of Securities Companies (Interim)”, and the asset management business was formally confirmed as one of three Investment bank’s three services with consignment and broker by the government, and the Investment bank’s asset management business begun to be identified highly by the supervision layer, and Chinese Investment bank’s asset management business begun to meet the historical opportunity.

According to the statistical data from WIND Information, since 2005, 64 integrated asset management products have been authorized, 58 securities companies have acquired the permission of the securities asset management business, and 24 securities companies have developed the asset management business. With the rise of the secondary market and the quick authorized speed of supervision, the policy environment and market environment of the Investment bank’s asset management business begun to gradually loose. In the first quarter of this year, 17 integrated asset management plans have been authorized, and 10 of them had be issued, and other 7 products are in the extension period, but in the first quarter of 2008, only 5 asset management products were issued and founded, and the authorized product amount in the first quarter of 2009 increased 183%. For the financing scale of the integrated asset management plan, the financing amount in the first quarter of 2008 was 5.8 billion Yuan, and the amount in the first quarter of this year achieved 12.1 billion Yuan, with an increase of 109% in the same period. In addition, the past integrated asset management planes often survived for 2–3 years, but the survive period of the products in this year are extended to 5 years. When the scale is extended, the competition is more and more drastic, Investment banks still should be careful to ensure the investment income, control risk, make the sustainable selling, and stabilize the scale of the asset management products.
At present, the supervision space of the design and development of Chinese asset management product has been opened. According to national laws, the investment range of the Investment bank’s asset management business can be extended from the basic financial products to the derivative financial products, from the capital market to the coin market, and from domestic financial products to the foreign financial products, and the range includes not only the cash asset commitment, but the non-cash financial asset commitment. The urgent task is not to limit the product design by laws, but to develop Investment bank’s product development ability grasping the investment opportunity of multiple markets in advance in the frame of laws and regulations, and the Investment bank should design the type of asset management, investment style and strategies according to clients’ requirements and characteristics, and actively design multiple individualized asset management mode, match various clients’ requirements, and offer wider selection range for clients according to different investors’ types.

3. Chinese Investment banks’ ability construction for the asset management business

At present, the competition situation of domestic asset management business has turned from the homogeneity mode of asset management products to the value difference mode. With the increasing individualization of domestic market demands, the integration of capital market and the view globalization of product allocation, the occurrence of the asset management product which can fulfill different segmentation markets is the future development tendency of the asset management business. From the research of the international asset management business, the product development design, the investment management and the marketing and client service ability are three core parts of the asset management business, and the differences among them are the key source to form the competitive advantages of the Investment bank’s asset management.

3.1 Construction of product design ability

The advanced experiences of the international asset management business indicate that the design of the asset management product must be based on the whole asset management value chain, and the before the asset management product is pushed, the judgment of the market hotspot and demand, the understanding of the investment product in the market and the combined pricing right of the product should be studied deeply, which all can effectively the successful issuing of the asset management product.

For the example of the “Ji Hui Bao” asset management product pushed by the Bank of East Asia in May of 2005, the consumers of the product hope ensuring not to lose capital investment and acquiring potential high incomes with risk and a few conservative favors. Through analyzing of the product, the successfully issuing of the product mainly includes three key successful factors. The first one is the grasping of the market issuing opportunity, and when the product was pushed, the capital market rose, and investors had intensive investment design of the products with high incomes, so the product could effectively investors’ interests in the market. The second factor is the diverse investments, and the relative three stock funds (including the Niu Bo US Stock Value Fund, the Morgan Fulminating Europe Strategic Value Fund and the Baring Hong Kong China Fund) which were distributed in America, Europe and China all had excellent historical performance and large market rallying point. The third factor is the exactly pricing. Whether the market rose or fell, if the relative fund defeated the market index, investors could profit (extra reward= performance of fund- market performance), and the relative subject of the investment needed not use investors’ corpuses, and the risk could be reduced, and the attributes such as the redemption, melon-cutting and charge of the product should be clear for investors’ understanding.

Foreign experiences indicate that to provide multiple integrated products, establish the guarantee of the investment combination of the multi-product base and the multi-investment, and exactly grasp the issuing opportunity of product design ability was the emphasis of the management mode conversion of Chinese Investment bank’s asset management business. First, the reuse of the combination of investment products in the interiors of the company and in the market must be emphasized. Second, the development tendency of financial products with different styles and main characters such as yield, risk level and cycle characters should be grasped in time, and the main attributes of the product design from several dimensions such as investment risk, investment term and investment return ratio should be primarily built, and the product design direction should be form and the multi-product combinations should be established. In addition, the pricing ability is the core of the product design ability, and the pricing ability of asset management product not only aims at single product, but more concern the change of real values after the products are combined, because the recombination of risk, income and fluidity in the product combinations with different characters (such as the combination of the stock fund and derivative products) will influence the attributes of the product combination, and the pricing ability of the asset management product will be the competitive focus for Chinese asset management institutions in future.

In different market environments and market tendencies, the investment hotspots in the market changes with that, and whether the asset management products pushed in different terms could grasp the investment topic hotspot in their present own term is one key factors to realize the successful selling, so the asset management department should continually push the products fulfilling the market hotspot in advance, and acquire the increase of the scale and the
income. In addition, the asset management product design should nearly concern the market trends and grasp the life cycles of the asset management products with different types, and when the trend of the asset management scale of certain product reduces, the department should push new product, and make the whole asset management scale can acquire sustainable development by grasping the product issuing period. At the same time, with the change of exterior market environment, the investment financing products issued initially would also meet exterior risk and produce the change of the profit and loss, and the original investors’ investment favors will be dynamically adjusted, and the asset management department should push corresponding product allocation to hedge the periodic risk of the initial product in time and achieve the client service effect of “turning risk into opportunity”, which are very important to maintain the clients’ loyalty and enhance the clients’ total value incomes.

3.2 Construction of sales ability

The sales system of Chinese Investment bank’s asset management business contains interior aspect and exterior aspect, and three layers including the asset management department marketing personnel, the sales department core marketing personnel and the exterior cooperative financing institution. The Investment bank’s sales ability construction should mainly build three key parts, i.e. training expert consultant sales personnel, building the sales department network taking the sales orientation as the core, and establishing the third party’s sales channel with good relationship.

(1)The marketing personnel in the asset management department should be expert and professional, and the construction of the product sales ability should closely connect with the product design ability.

The marketing experiences of foreign asset management proved that as a kind of innovational, professional and complex business, the asset management more needs the personnel with high quality to perform the marketing comparing with traditional business marketing domains such as broker and consignment. The complexity of the securities market requires the professional investment which requires the professional sale, and as the most important ligament between the company and clients, the personnel in the sales department under the Investment bank’s asset management department should turn to investment counselors and experts, which has very important strategic meanings, and it requires not only to dig clients’ potential demands, compare the characteristics of different products, and achieve the trade and perform after service, but offer the first-line support for the sales prediction of the company and competitors’ strength judgment and strategy analysis, or else, the investment and financing business can not acquire good management performance, and this business can not be developed further.

(2)Depending on the core marketing personnel, enhancing the sales efficiency of the sales department and strengthening the direct marketing product sales ability

From the development trends of the international asset management business, the tendency of the integration of the asset management business and the securities broking business is more and more obvious, and the foreign Investment banks have walked out the stage simply commending individual stock for clients, and they utilizes their own professional research team to implement the product design, and continually push the possible optimal combinational of all products in the financial market which can follow the development tendency of the market for clients. To fulfill clients’ multiple financial asset management demands to the largest extent is the chief premise enhancing the market share, and domestic Investment banks should fully utilize existing business net, enhance the sales efficiency of existing net, and turn the strategic orientation of the sales department to the sales orientation, establish the business development and investment management system taking the core marketing personnel as the main source of asset and directly facing big clients, and promote the effective integration of the asset management business and the broking business.

(3)Establishing the third party’s sales channel with long-term cooperation and reciprocity and mutual benefit

At present, a financing market spanning various financial institutions in China has formed, and not only the competition but the mutual cooperation exist between securities financing products and other financial institution financing products. Though because of many reasons such as the homogeneity of products and the superposition of marketing subjects, the bank financing, trusting financing and risk financing all compete with Investment banks’ asset management business, but these financial institutions are potential strategic cooperators. First, numerous branches and vast client advantages of banks are better than all Investment banks. Second, other financial institutions have certain differences with the Investment bank’s asset management composing, and the fixed income product of bank and the PE products of trust company have obvious advantages, and the foreign financial institutions have stronger financing advantages, which all can be one part of the Investment bank’s asset management product, and both parties can cooperate. Third, the financing ability of other financial institutions is stronger, and it is very important for the quick sale of the Investment bank’s asset management products. Sales ability is the most important loop in the securities asset management business chain, and for Chinese Investment banks, the biggest challenges will be how to acquire relative competition advantages and realize the great-leap-forward development in the same business with others’ help.
3.3 Construction of investment management ability

The construction of the investment management ability requires implementing initial product collocation oriented by clients’ demands, and adjusting the investment combinations in the process of operation and supervision, and hedging the risks from the change of the market when the new product is pushed, and realizing the good operation. The process generally includes three stages such as the initial collocation of product and client demands, operation supervision, and investment combination adjustment or new product design. The asset managers need to dynamically adjust the investment proportions of various assets according to the macro economy, national policy, financial market tendency, investors’ risk favor degrees and asset risk income, reduce the investment risk and increase the return of investment by means of proper selection and effective combination of assets, and accordingly realize consignors’ long-term investment targets.

There are numerous factors to influence the fluctuation of the asset price, but the fundamentals decided by the economic layer is the most basic factor, so the active asset collocation according to the economic cycle is the effective collocation method. Foreign and domestic researches showed that in the four stages including depression, recover, overheat and stagflation in the economic cycle, according to the economic growth and inflation, the income differences of different assets such as stock, bond, commodity and cash are significantly different in different economic cycle stages. In the economic recover stage, the income of the stock asset is best, and the economy is in the ascending process, and the inflation level has not risen and the government will not adopt contractive policy to control. But in the stagflation stage that the inflation raises and the economy falls, the income of the stock asset is worst and here the optimal selection is to hold the commodity asset. In the depression stage that both the economy and inflation fell, the income of the bond is best. And in the stage that the inflation and economy rise, the income of commodity is best.

From the actuality of Chinese asset management at present, the emphasis degree to the commodity asset collocation is not enough obviously, that is related with the development stage of the domestic commodity futures market and the demands of the supervision layer controlling the risk, but starting from the experiences of developed countries, it is a kind of necessary trend that the commodity asset is emphasized. As the market economy of China is further developed, the cycle character of the economic growth will be more and more obvious, that means it will be a kind of tide to bring bulk commodity into the investment combination in the asset collocation. As the varieties of domestic commodity futures gradually increase, the structure is gradually optimized, and the stock index futures is about to come into the market, the more perfect environment will be provided for investors to allocate their assets.

References


