

## **CHAPTER 2**

### **LITERATURE REVIEW**

Since China began to develop personal wealth management services in the 1990s, it has maintained a trend of rapid growth. The increase in residents' personal wealth has provided a strong external force for the development of wealth management services. The competition between various commercial banks and other financial institutions is increasing. Intensified. Among them, the development of Minsheng Bank's personal wealth management business is more prominent. The Bank will respond to this challenge by intensifying its "blended finance" operations (where the financing delivered on commercial terms is combined with financial grants or incentives to stimulate a certain market behaviour of either the PFIs or their clients) and by allowing in targeted cases for financing to be priced on the basis of the prevailing market conditions, rather than on the basis of the implied risk.

#### **2.1 The meaning and origin of personal finance business**

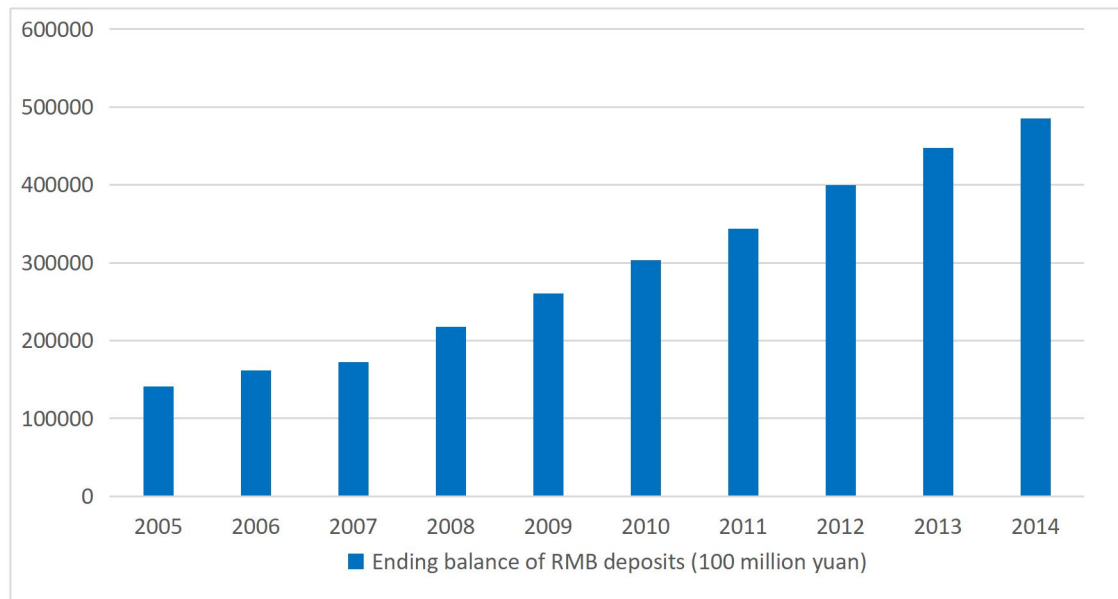
Personal financial services belong to the intermediary business of commercial banks. The bank's wealth management product is initiated by the commercial bank, and it is designed and acted as the product manager's wealth management product. The bank performs asset management on the funds entrusted by the customer according to the investment direction and investment method agreed with the customer. The income and risks arising from the investment process are Both parties sign the terms agreed in the contract for distribution. According to Article II of the Interim Measures for the Administration of Personal Banking Business of Commercial Banks promulgated by the China Banking Regulatory Commission, personal wealth management services refer to financial analysis and planning provided by commercial banks for individual customers. Investment consultants and asset management and other specialized service activities. Assessing whether the impact of financial development on poverty is influenced by institutions has important policy insights; it is no coincidence that two of the World Bank's top priorities are the development of the financial sector and institution-building. It also puts them into the context of current international development policy priorities, including the creation of sustainable employment opportunities and the reduction of poverty levels in low income countries. This level of investment corresponds to roughly 6% of Official Development Assistance provided by the governments of the DFIs' 14 home countries. The Least Developed Countries are the poorest countries with a GNI percapita below US \$750. The three private sector segments - large businesses, small and medium enterprises (SMEs), and micro-businesses, have different degrees of access to finance.

Access to finance is particularly a challenge in countries that are either rated —non-investment grade or not rated at all. Excluded countries are those that do not issue debt on global markets and where market information tends to be very limited (Compton & Giedeman, 2011).

## **2.2 The importance of developing personal wealth management services**

The importance of developing personal wealth management services is self-evident. First of all, for the public, the development of the national economy and the reform of the income distribution system have allowed residents to accumulate more personal wealth. The balance of savings deposits between urban and rural residents has increased year by year, and disposable income has also increased Figure 1. As of the fourth quarter of 2016, the cumulative per capita disposable income of residents in our country reached RMB 23,821. With the increase of residents' income, individuals and families are no longer satisfied with basic savings, and have higher requirements for asset appreciation, and hope to achieve more rational and efficient use of assets. In 2013, China Merchants Bank and Prospect Magazine conducted surveys on financial management of 1010 respondents and published the 2013 State Survey of Urban Wealth Management and Asset Allocation in China. Through analysis and summary, it is found that 88% of them have already had financial awareness and are conducting or are about to start financial management business, but they lack knowledge of financial management. As per the Enhanced and Structured Approach to Policy Reform Dialogue at the EBRD paper, investment projects will continue to form an essential base for a more proactive EBRD policy reform engagement (Wang, 2016). However, risks and benefits in the financial market Coexistence, there is an urgent need for banks to provide specialized personal financial consulting and consulting services. Provide a thorough analysis of the existence of thresholds in the relationship between financial development and poverty.

**Figure 1: Annual balance of renminbi deposits between urban and rural residents from 2005 to 2014**



Another concern with the estimations is the potential influence of outliers. We have used the Hadimvo procedure for outlier detection available in Stata for multivariate data. This result provides evidence in favour of a pro-poor impact from financial development, which is the expectation and is in line with the findings of previous studies on the financial development-poverty nexus. Similarly, the coefficient of the institutional variable is negative and statistically significant, meaning that the impact of institutional development is also pro-poor. Based on the above analysis, we can see the importance and urgency of developing personal wealth management services in China's social economy.

### **2.3 Development of personal finance services in China**

Regarding development banking, four new non-deposit-collecting banks have been established in accordance with the development plans (Guo, 2015). As shown in Table 1 below, the changes in the fee and commission income structure of various listed banks from 2014 to 2015 show that the common trends in the development of all types of banks are the positive development of wealth management, private banking and asset custody services. The proportion has increased. Change, this also shows that all commercial banks are shifting their business focus to financial management.

**Table 1: Changes in the fee and commission income structure of various listed banks**

	Large commercial bank	Joint-stock commercial bank	city Bank	Commercial
	2015 year	2014 year	2015 year	2014 year
Money management, private banking and asset custody	19.58%	15.51%	27.71%	24.21%
E-banking and other	7.14%	7.48%	6.28%	7.55%
Bank card	25.11%	24.46%	28.14%	27.39%
Settlement, liquidation and foreign exchange	14.33%	17.24%	5.20%	7.38%
proxy	15.31%	12.62%	17.21%	13.93
Consultancy and Investment Banking	12.20%	16.02%	8.36%	10.22%
Guarantees and promises	6.32%	6.76%	7.11%	9.32%

### 2.3.1 Quantity and continuity of wealth management products

Since the development of wealth management services in China, the number and scale of products in China's personal wealth management market are shown in Table 2. It can be seen that the total scale has been increasing (Table 3). Despite the still relatively small, albeit growing, number of this type of randomized evaluation, the general thrust of this new body of evidence suggests that financial services do have a positive impact on a variety of micro-economic indicators, including self-employment business activities, household consumption, and well-being (Abdul & Maurizio, 2017). According to Wind data, the number of wealth management products issued in 2015 was 77,860, but the year-on-year increase was only 17.06%, far lower than the increase in previous years. As of the end of June 2016, the number of products remaining in the domestic banking wealth management market was 68,961, and the balance of funds was 26.28 billion yuan.

**Table 2: Number and Scale of Banking Wealth Products in China in 2014-2016  
(Unit: only, trillion)**

Year	Product quantity	Product Continuity	Scale increase	Growth rate
2014	55012	15.02	-	-
2015	60879	23.50	8.48	56.46%
2016First half	68962	26.28	2.78	11.83%

**Table 3: Number of Banking Wealth Management Products Issued in China in 2012-2015 (Unit: Only)**

Year	Issue number	Growth rate
2012	31673	-
2013	44983	33.81%
2014	66512	47.86%
2015	77860	17.06%

### 2.3.2 Types of financial products revenue

Financial products can be divided into non-guaranteed floating income products, guaranteed capital floating income products and guaranteed income products according to different types of income. In the first half of 2016, the proportion of non-guaranteed products in China's banking wealth management products increased, and the proportion of guaranteed products declined. The remaining balance of non-guaranteed floating-income wealth management products was approximately RMB20.18 trillion, the balance of capital-guaranteed floating-income products was approximately RMB3.86 trillion, and the balance of guaranteed income products was approximately RMB2.24 trillion. The trend of changes is shown in Table 4 and Figure 1. According to the chart, we can see that although the balance of wealth management products of various income types has shown a growing trend. For example, the Bank will continue to advocate in Moldova the establishment of a single, unified, universal and transparent registry of shares of banks (Xu, 2014).

**Table 4: Balances and Proportions of Various Types of Wealth Management Products in 2014-2016 (Unit: trillion)**

Revenue type	2014year		2015year		2016First half	
	Balance	proportio n	Balance	proportio n	Balance	proportio n
Guaranteed fixed type	1.67	11.4%	2.43	9.68%	2.24	8.52%
Guaranteed floating	3.26	21.69%	3.64	20.88%	3.86	14.69%
Non-guaranteed floating	10.09	67.17%	17.43	69.44%	20.18	76.19%

### 2.3.3 The maturity of financial products

Financial products can generally be divided into four types within 3 months, 3-6 months, 6-12 months and 1 year or more depending on the time limit. In the first half of 2016, China's banking wealth management market cumulatively raised closed-ended wealth management products by 24.13 trillion yuan. The average duration of wealth management products that are weighted by the amount of funds is 127 days. The changes in the amount and proportion of capital raised from various periods since 2013 are shown in Table 5. Financial products within 3 months are the product types most favored by investors, and products with absolute advantages far exceed those of other deadlines, but their proportion is declining year by year, and they are tilted toward long-term products. Taking stock of the lessons learned from policy dialogue undertaken by the Bank so far, the activities will include support for policy implementation in addition to the definition or redefinition of policy (EBRD, 2014). The weighted period of closed wealth management products has gradually increased from 91 days in 2013 to 127 days in the first half of 2016, which also explains this issue.

**Table 5: Proposals and Proportions of Offering of Closed-end Wealth Management Products of Different Term (Unit: trillions of yuan)**

		Within 3 months	3-6 months	6-12month s	More than 1 year	total	Weighte d period
2013year	Amount	24.74	5.04	3.14	0.66	33.58	91day
	Accounting	73.67%	18.68%	9.34%	1.97%	100%	
2014year	Amount	28.78	7.72	4.3	0.51	41.31	96day
	Accounting	69.67%	15.02%	10.42%	1.23%	100%	
2015year	Amount	25.99	10.07	5.80	1.00	42.86	113day
	Accounting	60.64%	23.50%	13.53%	2.33%	100%	
2016First half	Amount	13.51	5.91	4.20	0.51	24.13	127day
	Accounting	56.00%	24.48%	17.40%	2.12%	100%	

Source of data: Annual income of China Banking Financial Market Annual Report

### 2.3.4 Risk level of financial products

The strategic objective will be achieved via the different strategic initiatives on-going within the Bank, especially the Small Business Initiative (targeting MSMEs), the Strategic Gender Initiative (targeting Women) and the Strategy for the Promotion of Gender Equality, the Green Economy Transition (promoting energy and resource efficient financial products), but also the Private Sector Food Security Initiative (which targets agriculture finance) and the Knowledge Economy where innovation and technological advancement are promoted (Wang, 2016). Financial products are generally classified into five levels of risk: low, medium, low, medium, high, and high. Table 6 show the amounts and proportions of wealth management products raised at various risk levels over the years. As can be seen from the chart, financial products below level 2 are more popular with investors and can account for about 80% of the entire wealth management market. With the overall proportion of the two occupying a high level, the proportion of wealth management products with a risk level of two is increasing, indicating that investors expect to obtain higher returns if the overall level of risk is low, so our country's commercial banks can target This development trend has issued more middle and low-level financial products.

**Table 6: Amount and proportion of financial products raised by each risk level (unit: trillions of yuan)**

		One level (low)	Secondary (mid Lo)	Level 3 (mid)	Level 4 (mid high)	Level 5 (High)	Total
2013 year	Raised amount	24.33	29.15	16.60	0.33	0.08	70.49
	proportion	34.52%	41.36%	23.55%	0.46%	0.11%	100%
2014 year	Raised amount	31.49	64.23	17.59	0.48	0.18	113.97
	proportion	27.63%	56.36%	15.43%	0.42%	0.18%	100%
2015 year	Raised amount	42.37	94.42	20.75	0.75	0.12	158.41
	proportion	26.75%	59.60%	13.10%	0.47%	0.08%	100%
2016 First half	Raised amount	21.71	47.72	14.30	0.16	0.10	83.98
	proportion	25.85%	56.82%	17.02%	0.20%	0.12%	100%

#### **2.4 Development status of Minsheng Banking personal financial services**

It can be argued that in the process of industrialization, regional imbalances and poverty can be reduced if the credits are allocated in a way that is effective to this end. The criteria for the distribution of these credits among geographical regions, however, were ambiguous (Abdul & Maurizio, 2017). Minsheng Bank strictly complies with regulatory requirements, adheres to the principle of a financial service entity economy, actively expands the development path for business innovation, and strives to build an “extraordinary asset management” brand. It has won the “China Asset Management Gold Bay Award 2015” at the China Asset Management Annual Meeting. And won the "Golden Medal Innovation Custody Bank Award" at the 2015 Financial Wealth Management Awards.



#### 2.4.1 Continuation scale of wealth management products of Minsheng Bank

Since the bulk of financial services in developing countries are provided by banks, we assess financial development from the most-commonly used bank-based measures of financial development, which are private credit, liquid liabilities and deposit money bank assets, all expressed as a share of GDP. Private credit gauges the amount of credit that banks other than monetary authorities allocate to the private sector. This is a standard variable in the finance literature (Bauchet & Cristobal, 2011). In 2012, the scale of the issuance of Minsheng Bank's wealth management products exceeded 100 billion yuan. The historical scale of wealth management products over the years is shown in Table 7. It can be seen that the business volume of Minsheng Bank has maintained a rapid growth trend. After the financial management scale rose in 2015, it has declined in 2016.

**Table 7: Changes in the Scale and Growth Rate of Personal Wealth Management Products of Minsheng Bank**

Year	The continued scale of financial products (100 million yuan)	growth rate
2013	3315.96	-
2014	4771.81	43.90%
2015	10585.40	121.83%
2016First half	13345.90	26.08%

Source: China Minsheng Bank's Annual Report

#### 2.4.2 Minsheng Bank financial product revenue type

Similar to the percentage of product revenue types in the nation's personal wealth management market, non-guaranteed floating-type products are also the majority of personal wealth management products issued by China Minsheng Bank. In 2016, various types accounted for in Table 8. In other words, the mode of development shifted from an inward-oriented accumulation regime with extensive state regulation and intervention to a stance that was export-oriented.

**Table 8: Share of Different Types of Income of Personal Banking Products of Minsheng Bank**

Revenue type	Guaranteed fixed	Capital preservation	Non-guaranteed floating
Accounting	15.43%	6.38%	78.19%

Source: China Finance Network

### 2.4.3 Minsheng Bank's financial product maturity

The maturity of the wealth management products issued by Minsheng Bank in 2016 is mainly within 3 months, 3-6 months and 6-12 months. The maturity of its wealth management products is shown in Table 9. It can be seen that Minsheng Bank's personal wealth management products are mostly concentrated within 3 months, accounting for 83.48%, which is far more than 56% of the Chinese banking industry's wealth management market. This may lead to the lack of supply of Minsheng Bank in responding to the long-term investment demand of its customers. At the same time, the short-term product yield will be significantly lower than the medium and long-term products, which will make Minsheng Bank unreliable in terms of profitability.(Chen, 2016).

**Table 9: Distribution of Minsheng Bank's financial products**

Financial product term	Product Type (only)	The proportion of the number
Within 3 months	1713	83.48%
3-6 months	305	14.86%
6-12 months	34	1.66%

Data Source: Wind Finished

### 2.4.4 Minsheng Bank's sales channels for financial products

In recent years, Minsheng Bank has actively developed the financial market sector in order to adapt to the tremendous changes in the market and achieved strong growth and progress. Minsheng Bank strictly complied with regulatory requirements and established a franchised organization to conduct unified management of its customers in the same industry. It also established a three-tiered hierarchical management system for customers and promoted the healthy development of its interbank business. Relying on the "custody +" service platform, it has gained advantages in the field of asset securitization and realized the steady development of the custody business. At the same time. It has made every effort to create an "extraordinary wealth management" brand, actively expanding its sales channels under the rapid development of the Internet, and achieved remarkable results in personal finance business. Table 10 shows the amount of personal wealth management products that Minsheng Bank has sold through electronic channels over the years and the percentage of all personal wealth management products. Given the large heterogeneity of countries covered by multilateral DFIs, and in order to gain a

better understanding of the possible different effects that the above variables may have on economic growth, we split our sample into two sub-samples. One includes 59 lower-income countries and the other 42 higher-income countries.

**Table 10: Minsheng Bank Electronic Channel Sales Personal Finance Products Amount and Percentage**

Year	Sales amount (trillion yuan)	percentage
2013	1.11	86.76%
2014	1.89	94.15%
2015	2.77	98.77%
2016First half	1.32	98.87%

Source: China Minsheng Bank's Annual Report