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The Status of RMB Financial Products of Commercial Banks in China: From the Perspective of Homogeneity

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Abstract

With the rapid development of commercial bank financial services in China, some problems arise in the process. This paper focuses on the widely concerned issue of homogeneity, basing on the classification of products, and takes the data from 2007 to 2013 about RMB financial products issued by 17 commercial banks as the sample to analyze the product type, minimum amount, investment period and returns of these products. Reasons for homogeneity will be discussed and recommendations in the aspects of customers, products, marketing channels and financial managers will be made to solve this problem.

Key words: Commercial banks; Financial products; Homogeneity

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INTRODUCTION

Financial products of commercial bank refer to investment plans catering to the customer's demand. Customers give funds to the commercial banks to manage, and the

two sides have agreements on the management period, investment yield and investment objectives in advance, as well as the risk warnings.

The RMB financial products of commercial banks were available in 2004, and then boom in the subsequent ten years. But some problems also arise in the process, and one of the most prominent is homogeneity, which means a lack of innovation. The traditional way of undifferentiated products and services can no longer satisfy today's customers. To face the fierce competition, commercial banks should adjust their marketing strategies and produce unique products to better serve their client, thus increasing the market share.

1. TYPES OF THE FINANCIAL PRODUCTS OF COMMERCIAL BANKS IN CHINA

There are different ways to classify the financial products. The birth of each product has its own circumstances, and discussing them according to their types can help to analyze the current situation and predict the future, which can also provide evidence for the study on homogeneity problem.

1.1 Classified by Investment Objectives

The first type is bond-type financial products. In 2004, China Everbright Bank published the first RMB financial products of China, and it is a bond-type financial products. This kind of product invests in the currency market, which includes the treasury bonds, the financial bonds, the corporate bonds as the main investment objectives. Because of the credibility of the bank as a guarantee, the risk of such products is relatively low.

The second type is paper-type financial products. The paper-type financial products mainly have two kinds of cases: One kind is to invest in the central-bank bills, which are high credit rating, low risk and steady yield. Another kind is the paper-type of trust products. This is an

investment mode of cooperation between trust and bank. The commercial banks take the discounted bill assignment to trust company and use for a specific trust scheme.

The third type is credit-type financial products. Credit-type financial products are a mode of cooperation between trust and bank. The commercial banks give the credit assets to a trust company, and then transform them into the financial products to sale to customers. The credit-type financial products raise funds through the trust company, replacing a part of bank loans.

The fourth type is IPO financial products. With the stock market thriving, China CITIC Bank published the first IPO financial products in 2006. This product uses the raising funds to purchase the new shares, so that the financial products can flow into the capital market. The IPO financial products are influenced by economic environment. If the stock market slumps, the products will lose its value.

The fifth type is QDII financial products. QDII is the abbreviation of the qualified domestic institutional investor. QDII financial products are issued by qualified commercial bank, and customers can use the RMB to purchase, and then exchange RMB into foreign currency to invest overseas. When the products expire, the bank put the principal and yield converted into RMB, and given to investors. The products relate to the round-trip convertibility between the RMB and foreign currency, so the customers should pay attention to the exchange rate risks.

The sixth type is structured financial products. It combines fixed income products and financial derivatives together in the structural design, for example combining the central bank bills, treasury bonds with the stocks, funds, options, and the yield depends on the latter's performance.

The seventh type is mixed financial products. These products are very popular, which contain two or more kinds of investment objectives. Because of the diversity of investment objectives, the products can disperse the risk of investment to some extent. But the products increase the difficulty in supervision, and make the investment have potential risks.

1.2 Classified by Management Period

According to the management period of financial products, the products can be classified into less than 3 months, 3 to 6 months, 6 to 12 months, 12 to 24 months and more than 24 months. There is a relationship between investment risk and management period, that is, the longer the period is, the higher the risk will be. And a great amount of financial products cannot be redeemed in advance, so the customers should consider their own risk tolerance and the demand for liquidity before purchasing the financial products.

1.3 Classified by the Type of Yield

According to the type of yield, the products can be classified into the following three types: First one is the

fixed income products. Customers can take back the principal and get fixed income at the due date. This kind of product has low-risk, but the yield given by the bank is not high. The second is the capital preservation and floating income products. Customers can take back the principal at due date, but the yields depends on the performance of investment objectives. In this circumstance, customers will face higher risk than the fixed income products. The third is the capital un-preservation and floating income products. Risk of this type is the highest of these three kinds of products. Not only the yield is uncertain, but also whether the customers can take back the principal is unknown.

2. THE PHENOMENON OF HOMOGENEITY

With the rapid development of the commercial bank financial services, the phenomenon of homogeneity of the financial products gradually appears. In the later years, although the circulation and types of financial products have increased, the phenomenon of homogeneity has not been relieved. The imitation among the financial products is extremely popular. When a bank issued new products, it will soon be copied by other banks. In such cases, the banks will have to compete by increasing yield, which not only reduces the profit space for commercial banks, but also exacerbate the market competition environment. It is not good for the healthy and sustainable development of the financial services market.

2.1 The Homogeneity of Products Type

By comparing the circulation of seven types of financial products published by 5 state-owned commercial banks and 12 national joint-stock commercial banks¹ from 2007 to 2013 (see Figure 1 and 2), it is obvious that different type of financial products have great difference in circulation, but the types of financial products are basically identical in different years.

Figure 1 and 2 show that: Firstly, the circulation of bond-type financial products had sharply increased since 2008, but began to fall after 2010; Secondly, the circulation of paper-type financial products published by the 17 commercial banks was not high; Thirdly, the circulation of credit-type financial products had a sharp increase in 2009, but at the end of 2009, China Banking Regulatory Commission took strict control on credit

¹ 5 state-owned commercial banks are Industrial and Commercial Bank of China (ICBC), Agriculture Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB) and Bank of Communication (BCM); 12 national joint-stock commercial banks are China CITIC Bank (CITIC), Guangdong Development Bank (GDB), the people's livelihood, China Merchants Bank (CMB), Hua Xia Bank (HXB), China Everbright Bank (CEB), Industrial Bank (CIB), Shanghai Pudong Development Bank (SPDB), Ping An Bank (PAB), China Zheshang Bank (CZB), China Bohai Bank (CBB) and Evergrowing Bank (EB).

products, and made the circulation fall sharply; Fourthly, the IPO and QDII financial products were “a flash in the pan”, gradually disappeared after the financial crisis in 2008; Fifthly, the structured financial products were exceptionally prosperous in 2012, and the circulation of many banks were more than one hundred; Finally, the circulation of mixed financial products continued to rise since 2010 because of the banks’ preference.

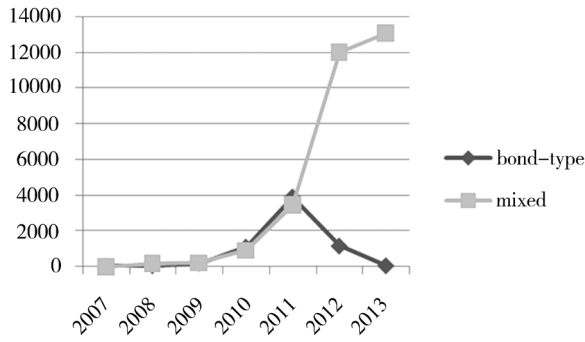


Figure 1
The Circulation of Various Types of RMB Financial Products Published by the 17 Commercial Banks From 2007 to 2013 (the Type of Bond-Type and Mixed)

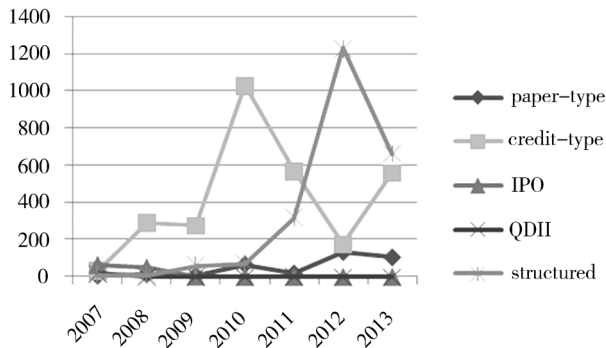
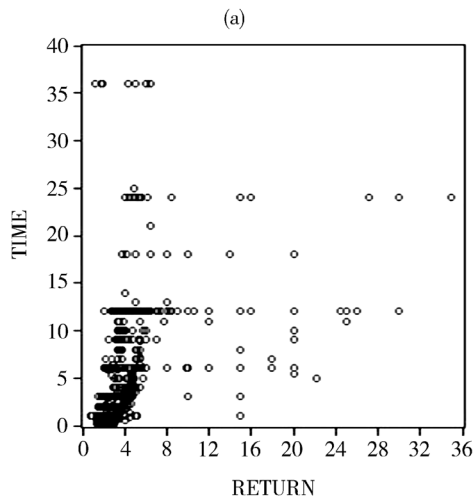


Figure 2
The Circulation of Various Types of RMB Financial Products Published by the 17 Commercial Banks From 2007 to 2013 (the Type of Paper-Type, Credit-Type, IPO, QDII and Structured)

Note. Source: Hexun Bank, <http://data.bank.hexun.com>



2.2 The Homogeneity of Minimum Amount

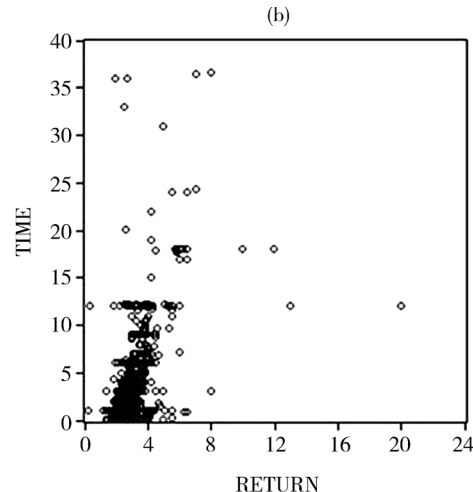
By comparing the basic information of financial products published by the 17 commercial banks, we found that the minimum investment amount is no except more than 50,000 yuan regardless of the management period and yield, and some are even more than 100,000 yuan, 500,000 yuan or higher standards for the minimum amount with the increasing unit of amount for 1,000 yuan or 10,000 yuan.

Not every customer can afford such a high minimum amount. On the one hand, it makes a part of customers unable to purchase the financial products, and leads to the loss of customers. On the other hand, because of the basically same minimum amount, even the customers have the ability to purchase the financial products, their choices are limited. The commercial banks should consider lowering the threshold of the financial products, so that more customers can purchase financial products. And they should set different level of the minimum amount, so that the customers have more choices.

2.3 The Homogeneity of Management Period and Yield

We still take the financial products published by the 17 commercial banks from 2007 to 2013 as a sample to analyze the management period and yield of financial products (see Figure 3 and 7). We found that the distribution management period and yield are relatively concentrated. The short and medium term financial products (for a period of less than 12 months) have been the key product of the commercial banks, and account for more than 90% of the total circulation. The expected yields are mostly from 2% to 6%. Only very few products have the period of more than one year, and expected yield for more than 10%.

The short and medium term products have characteristics of good fluidity, high security and high yields (compared to the savings with the same period) for their popularity. The yield is influenced by the



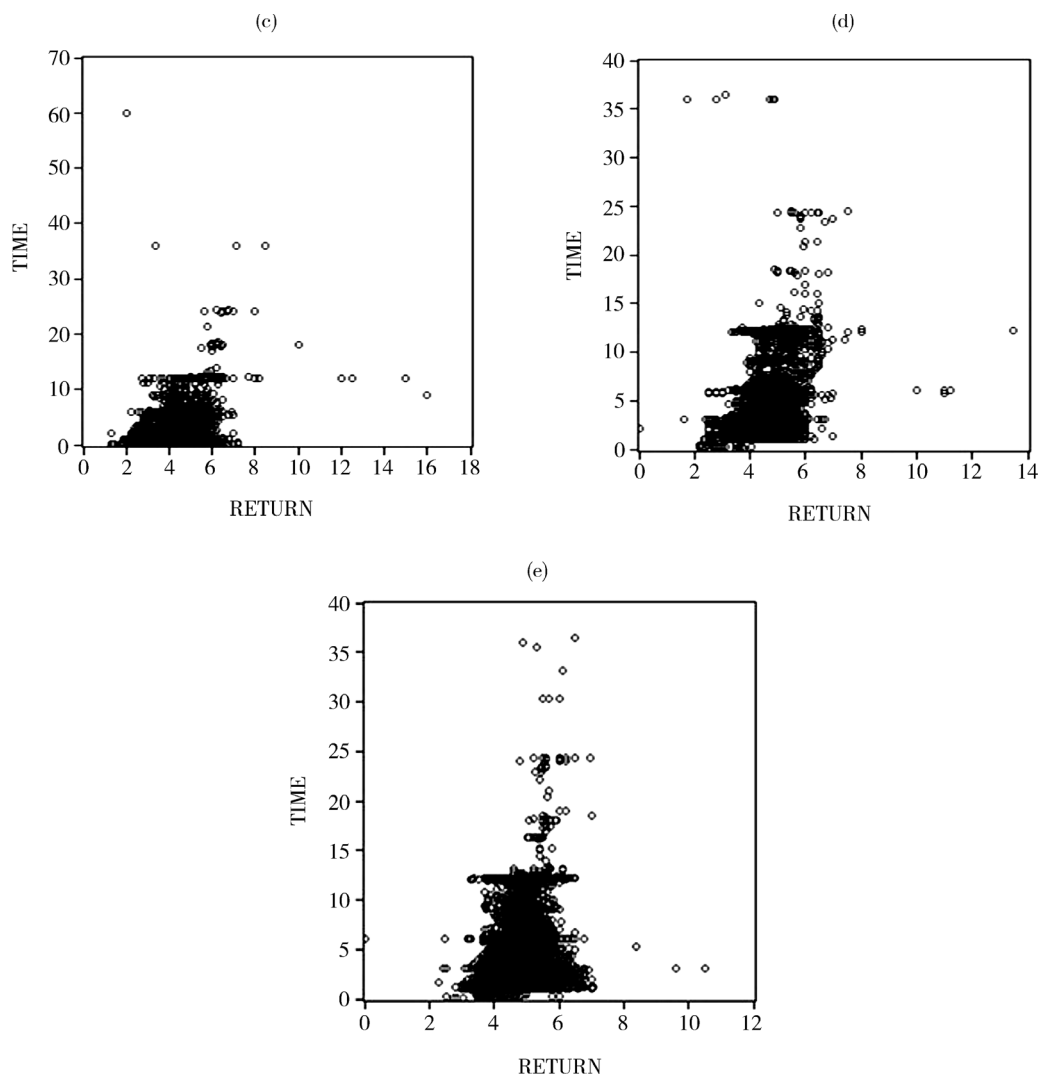


Figure 3
The Distribution of the Management Period and Yield of RMB Financial Products Published by the 17 Commercial Banks From 2007 to 2013. (a) 2007-2009, (b) 2010, (c) 2011, (d) 2012, (e) 2013

Note. Annotation: the horizontal axis represents the yields, the vertical axis represents the management period. Source: Hexun Bank, <http://data.bank.hexun.com>

management period and savings deposit interest rate. The commercial banks generally make the yield slightly higher than the savings deposit interest rate to attract customers.

3. THE REASONS FOR HOMOGENEITY

3.1 Lack of Knowing About Customers Demands

Because of the traditional status, banks often have sense of superiority when facing customers. But in today's situation, banks must change from "product centric" to "customer centric". Many financial managers only want to reach the sales objective to get bonus, but do not really know the customers' real need. This kind of marketing cannot combine the financial products with the customers'

demands, thus constraining the implementation of product differentiation.

3.2 The Same Market Positioning

China has a large population, and the financial services of commercial banks have a huge market. But the commercial banks treat the high-quality customers as the competitive target, and ignore the ordinary customers in order to obtain high profit. When facing the fierce competition, banks pay more attention to the scale of development, but ignoring the quality of products. In this case, the commercial banks have no time for innovation, which in turn makes the problem of imitation more serious.

3.3 The High Risk of Product Innovative

The product innovation needs a lot of investment in manpower and funds, but the result is uncertainty. Because

the financial market in China is not perfect, it becomes more difficult for innovation. Since banking sector is an industry with high risk, some banks can not afford if coupled with the risk of product innovation. Therefore, the banks are more willing to imitate other's products, rather than taking the innovation risk.

3.4 The Limited of Institution

The financial industry management mode of China uses American previous mode for reference. Although America has abandoned the mode of separating the operation and management in 1999, China has not been that advanced. To some extent, the strict regulation restricts the product innovation. And the financial industry of China is still not fully market-oriented. The development of financial products is not entirely depending on the market demand. One of the evidence is the expiry of credit-type financial products in 2011, which was the result of the change of China Banking Regulatory Commission policy.

4. THE RECOMMENDATIONS FOR HOMOGENEITY

Considering the increasingly fierce competition, the problem of homogeneity must be solved as soon as possible if the commercial banks want to enjoy a long-term development. Homogeneity and diversification are the two sides of a coin. But now homogeneity overtakes the other side, that is to say, the homogeneity can be solved by diversification. Some suggestions are as follows.

4.1 Customer Segmentation

With the development of economics in China, incomes for residents have increased steadily both in rural and urban areas, which make the financial market growing. The commercial banks may face many kinds of customers with different demands. So the commercial banks need to make customer segmentation to provide better financial services.

We can make the customer segmentation in many aspects, like the age stage, the income level, the education level, the stage of family life cycle, the character of the customers, the economic status of residence, etc.. The customers can also be divided into potential customers, high-quality customer, and ordinary customers. Different customers have different demands for financial products, for example, high-quality customers have abundant funds, taking up 80% of the bank profits, and are treated as key customers; the number of ordinary customers is large, which can accumulate small profits into large amount; as for the potential customers, putting them into real customers is the most critical step, which need financial managers' efforts.

4.2 Customer Focus

The concept of "Take the customer as the center, take the market as the guidance" has been put forward for many years, but the commercial banks did not really implement it. Suggestions are as follows:

Firstly, reduce the minimum investment amount for financial products. The minimum amount is generally high, limiting the customers' choices. It makes financial market more competitive, coupling with the development of the internet financial, such as Alibaba's YuEbao, which is zero threshold, random access, and high profit to attract billions of funds. The success of Yuebao reflects the customers' demands for the lower minimum amount of financial products.

Secondly, put the customers' demands embodied in products. The commercial banks should consider "what kind of products do customers need" rather than "what kind of customers do we need". This requires banks to make an in-depth understanding of customers' demands, such as the demands for the minimum amount, the liquidity of funds, the expected yield, and the acceptable level of risk, and then sum up the information and reflected it in the products.

4.3 More Marketing Channels

The single sales mode has been unable to meet the huge market demand, and the commercial banks must expand the marketing channels. Firstly, increase the propaganda of financial products. There are many publicity channels, such as the short message of mobile phone, website promotion, TV ads, newspaper ads, and propaganda poster, etc, which can strengthen the impression of financial products in customers' mind, and increase the likelihood of purchase the financial products. Secondly, set up the financial line. The professional financial managers should be ready to solve the customers' financial problems at any time. Finally, strengthen the function and security of the internet bank service to encourage and guide the customers to gain the latest information about the financial products through the internet bank.

4.4 Professional Financial Managers

With the development of financial products, professional financial managers are very needed. It is necessary to improve the skills and qualities of the management team, which is conducive to bank's competitiveness and the customer satisfaction. In the face of the large market, the professional financial manager need to know the market demand and make adjustments timely; the professional financial manager also need to learn the latest knowledge about finance, investment, securities, accounting and other professional course, so as to provide comprehensive product explanation for customer; the professional financial manager had better learn about the psychology to know the customer's investment psychology better. In addition, the commercial banks should recruit some

International Certified Financial Planner to build an international management team.

CONCLUSION

The homogeneity of financial products is a necessary stage in the domestic and foreign commercial bank financial service, and differentiation is the direction for the future. As China's financial market and the interest rate liberalization continue to improve, the innovation for financial product will be easier, and the development of financial service will be increasingly prosperous. And with the concept of "customer focus" widely accepted, the commercial banks will finally realize personalized financial products to achieve a better development of financial service.

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