

# Analysis on Development of Foreign Private Bank in China

<sup>1</sup> Ying Gou, <sup>2</sup> Ying-Jun Sun

<sup>1</sup> Ying Gou, Business School, University of Shanghai for Science and Technology, Shanghai, China

<sup>2</sup> Ying-Jun Sun, Business School, University of Shanghai for Science and Technology, Shanghai, China

Email: gy3650855@126.com

**Abstract** –Private bank is the high-end business of international commercial banks which is provided only by international banks or financial groups. Since 2007, private banking business was firstly worked out by the Bank of China, with the increasingly opening of finance in China, personal financial service is becoming a competitive and challenging field in which all commercial bank can gain high profit. But China's private banking market is still in the primary stage of development. Beginning with the development background of HSBC's private banking business, an in-depth exploration into the development pattern and suitable strategies of private banking business is made in this paper. Finally put forward proposal for the development of private banking business in China by learning from foreign experience.

**Keywords** –Private bank; Personal financial service; HSBC Bank; Suggestions

## 1. Introduction

From the 16th century, the first generation of private bank was formed in Switzerland, with the development of history and the vicissitudes of society, this business has gradually evolved into specially tailored services including investment management of individual wealth for the rich class. Private bank has taken the most important role in commercial banking field, and has characteristic of low risk and high reward. Modern private bank has already exceeded traditional category of retail banks and wealth management which is extending to customer's all aspects of social life and different stages of the life. For example, to provide insurance planning, tax planning, inherited assets services, global wealth protection, offshore funds, family offices, portfolio financial market and so on. The comprehensive implementation of customer's relationship management include a deep understanding of the customer's risk preference, profit expectation, privacy requirements, liquidity preference, asset management, personal and family characteristics, future life plans as well as other non-financial services, etc. is the key to success of private bank. The location of private bank in classified wealth management is shown in Figure 1.

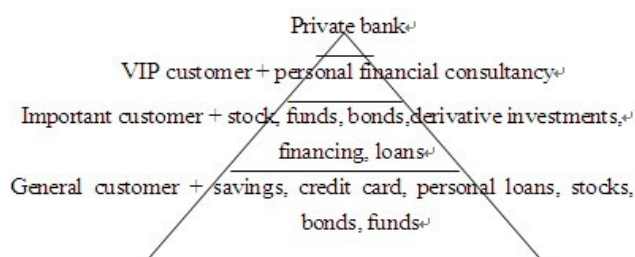


Figure 1. Classified Wealth Management

## 2. Analysis on development potential of foreign private bank in China

### 2.1. Great development potential in wealth market

Capgemini and RBC Wealth Management present the 2012 World Wealth Report (WWR), which offers insights into the size, composition, geographic distribution, and investing behavior of the world's population of high net worth

individuals those with US\$1 million or more at their disposal for investing. More than 1100 investors and 23 companies from over 70 countries in the world were visited. Reports indicate that the China's population of high net worth individuals (HNWIs) rose 5.2% in 2011, and makes Asia surpass Europe in wealth. China is one of the countries which grow the fastest in HNWIs population. The number of China's HNWIs hit 562 thousands at the Top 4 (see Figure 2). The geographic distribution of the world's HNWIs show that Asia-Pacific accounted for 10.7% of the world's HNWIs at the Top 2 (see Figure 3). There has been a younger tendency and under the age of fifty account for about eighty percent of rich people in China. This leads to the result that private bank has becoming popular in wealth management field.

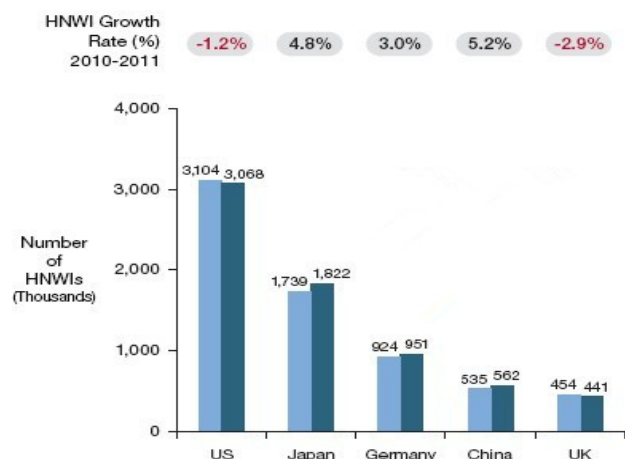


Figure 2. Largest HNWI Populations, 2011

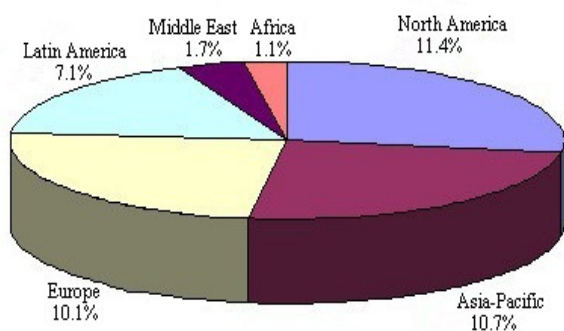


Figure 3. HNWI Wealth Distribution, 2011

## 2.2. Great development demand for private bank

Due to lower social and economic development level, our private banking business falls behind the western countries in knowledge and practice. In this situation, the domestic commercial bank prefer to provide service to large enterprise and customer while neglecting the development of individual financial business market that lead the demand of this service is suppressed. With the rapid growth of personal wealth, especially the gradually advanced economical reform, financial system consummating step by step and the continuously developed financial market in our country which have greatly promoted the individual financial business. At present, personal financial service as a main method for occupying more market shares and obtaining intermediary business which is becoming the new focus of financial

industry.

## 2.3. The steady of politics and society in China

The steady of politics and society is a necessary condition for developing private banking business. Switzerland as a neutral State is one of the important reasons for the success of its private bank from international experience. Political neutrality and political stability are very helpful to customer's good judgment on the safety of private bank. Real private bank is not just asset and wealth management, also including economic and policy risk prevention. China maintains a road of peaceful development, therefore, under the threat of terrorist activity in the global situation, China is indeed a relatively safe place.

## 3. Empirical analysis-taking HSBC as example

### 3.1. Analysis on development situation of HSBC China

HSBC is one of the world's largest banking and financial services organizations. Since opening in Shanghai in 1865, HSBC's business has grown rapidly in China, especially at the trade financing. In 1997, HSBC is one of the first batches of foreign banks that operate RMB business in Pudong district in Shanghai. In 1998, HSBC became the first-class member of the national RMB interbank lending market, and was approved to buyback and trade bond through the market. HSBC China opened on April 2, 2007, head office was established in Shanghai, which has becoming one of foreign banks expand and develop branches the most rapidly by mode of monopolization or investment that set foot in some areas including trust, bank, security and insurance. Moreover, HSBC China is the first foreign bank that set up village bank in China. In addition, HSBC China is one of the largest investment foreign banks in the mainland, the total of investment is more than US\$5 billion, including Bank of Shanghai, Ping An Insurance, and Bank of Communications. From private banks at the top of the pyramid to the bottom of the rural finance, from single bank business to a necessary condition for mixed operation such as insurance, trust business, etc. HSBC already has them all, so the platform and pattern of universal bank have been formed.

### 3.2 Analysis on private banking business of HSBC China

HSBC China opened the private banking business in China in March 2008, and set up branches in Beijing, Shanghai and Guangzhou. According to the amount of assets managed by HSBC, customers are divided into three levels (see Table 1).

Table 1. HSBC China Customer Classification

Asset Quantity	Customer Level	Administrative Department
≤ US \$ 100,000	Retail banking customer	Personal financial services Department
US \$ 100,000—US \$ 20,000,000	Premier customer	

≧ US \$ 20,000,000	HNWI	Private bank
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HSBC private bank have such three characteristics as private confidentiality service, universal service, and tailored personal financial service.

(1) Exclusive service: HSBC China arrange exclusive customer manager serve for the customers, there is no obvious difference between home and abroad on customer manager system, just different the professional level is.

(2) Universal service: this is the biggest advantage of foreign bank, and then HSBC has more prominent advantage in this respect. HSBC covers 83 countries and regions in the world, approximately 10,000 branches, among them 250 branches from 37 countries and regions provide premier services, which need more than 1.8 million premier customers around the world. Universal service can achieve a global service accounts, global recognition, as well as global emergency financial support. Many customers have international lifestyle with complex finance and investment needs. Assisting clients achieve financial goals by the most effective way is HSBC's objectives. Customers only need one contact point then they can enjoy a wide range of services, which is quick and easy.

(3) Tailored personal financial service: the innovation ability and individuation financing are also a big advantage for HSBC. It has global financial products library and the team with more than 140 years professional experience in product research and development. They can provide different portfolios adapt to customer's different life stages, different risk tolerance, at the same time, give recommendations on the direction of future investment.

HSBC Private Bank is a successful brand, on one hand, it has undergone much merger and acquisition in the development processes. On the other hand, own to its strategy: customer-centric, customer manager as a link, the product department provide effective solutions, other departments within the group coordinated cross-selling.

#### **4. Analysis on development of domestic private bank**

Domestic private banking business is lack of diversified products and well-trained professionals, so there is a significant gap compared with leading international banks.

##### **4.1 Domestic private banking business in the primary stage of development**

No matter the scale or the speed of development show that domestic private bank is still at the primary stage. Domestic commercial bank developed intermediate business again since 2000 from the strategic point of view. China Merchants Bank launched Golden Sunflower financing as the symbol in 2003, and then, other banks launched their new financial product one after another. Personal finance, VIP wealth management, etc. have been developed rapidly. Domestic commercial banks have accumulated a large number of customers, and have tried to separate customer groups accurately, and thus consciously foreshadow the further development of private banking business.

##### **4.2 Imperfection on financial regulation**

On one hand, nowadays operating systems of domestic financial markets limit the diversification and innovation of financial products. For example, global asset allocation is one of the important elements of private banking services, its purpose is to avoid the internal single market risk, and it's realized mainly through the offshore fund in practice. But the RMB is not a freely convertible currency that leads investment scope limited and unable to develop diverse financial products.

On the other hand, private bank would easily become accessory to help illegal capital to flee outside if not paying much attention. The large amount of black money generated by corruption, smuggling and other illegal activity will go abroad through private bank, which will suffer extremely severe punishment. However, there is no law can explicitly protect on-shore customer's assets. So it can't make mainland HNWI send their assets to private bank with no fear. Meanwhile, the value of private bank cannot be truly reflected. This has affected the exploration and application of products to a certain extent.

##### **4.3 Service contents are the same**

Private bank should provide comprehensive services that are more individuating, different, long-term, confidential, etc. However the phenomenon that services tend to similar leads to crisis of distinguishing features. The financial products used in America that hardly are found in China. Some innovative products just rely on private equity funds or trusts. That is they design products, which are sold to customer by private bank. Taking the Bank of China and CITIC private bank as examples, they had launched some financial products which aimed at private banking customer. But the mainly form of their products is focused on trust products invested in fund and stock market. In addition to the threshold was as high as several millions, they did not reflect their characteristics and high-end compared with other ordinary products.

##### **4.4 Imperfection of management system for Chinese bank**

Private bank in the real meaning should be independent from head office. However, there is no one private bank that is established independently in China, they all are a component part of head office. In comparison with the mode of matrix type and business unit from foreign bank, domestic private bank continue to use organization mode in planned economy ages. This mode does not take customer's demand as guidance to divide, but function and products. In this way, private banking business is belonged to different department, while different department have different regulations and operating methods. So lack of efficient coordination and cooperation restrict the development of private bank.

#### **5. Suggestions**

Now there is no clear legal regulatory system for private bank in China. Firstly, the uniform standardization should be enacted to avoid the uneven quality of private bank. Secondly, products of private bank are relatively complex and high-risk, they should strengthen and standardize supervision for risk

management in order to fully protect the customer's interests.

In addition, domestic commercial bank should establish long-term strategic partnership with foreign financial institutions. It is helpful to utilize resource efficiently, reduce costs and share customer base.

At the same time, improving the information technology is a development trend for private bank. E-bank equipment and software, can save costs and time, reduce manpower, expand customer network and improve the management level, which is a shortcut for the development of private banking business in China.

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