

Research on Personal Financial Product Innovation in Commercial Banks of China

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Abstract

In recent years, thanks for stable economic development in China, the residents have growing demand for financing services because of the rapid growth of their financial assets. At the same time, banks have innovated their financial products and services greatly. In the global financial crisis, financial service markets in China also suffered a great test, which raises the significance of research on financial product innovation in commercial banks of China. This article describes the overview of personal financial products in commercial banks of China; gives analysis of the characteristics of product innovation; points out the problem in product innovation through a comparison with foreign financial products and put forward countermeasures for a reference in domestic financial product innovation and development.

Keywords: Commercial bank, Financial product, Innovation

In recent years, personal financial services have enjoyed continual national fame. The total sales of national personal finance products are about 200 billion Yuan RMB in 2005, up to 4,000 billion Yuan RMB in 2006, and then rockets to one trillion Yuan in 2007. According to the statistics, Chinese commercial banks had launched 2404 kinds of personal financial products in full-year of 2007, the number of which reaching to 3664 in 2008; and it was followed by the total sales amount of 1.5 trillion yuan RMB in 2009. Thus, the rapid development of domestic financial products gives significance to innovative research on financial products in our commercial banks.

1. Overview of Financial Products in Commercial Banks of China

1.1 Concept of Financial Product

China Banking Regulatory Commission defined "Financial Business" as the commercial banks to provide customers with financial analysis, financial planning, investment advisers, assets management and other professional services. Financial business in commercial bank is divided into financial consultancy services and synthetic financial services according to the different style of management and operation. We normally refer Bank Financial Products to synthetic financial services in practice. Bank financial products are capital investment and management plans designed and sold to some specific target customers after further analysis on the potential customers. Designed and issued by commercial banks, the funds collected will be invested into the related financial markets to buy related financial products based on the contract, the yields from which will be allocated to the investors according to the stipulations in the contract. In essence, financial product is a kind of financial investment. Banks is authorized by customers to take funds under management. Investment returns and risks are undertaken by customers or client mode in accordance with agreement, which indicates existence of risks in financial product investment.

1.2 Classification of Financial Products in Commercial Banks

1.2.1 Classification according to Return Stability

Fixed Income Capital Preservation: It belongs to financial products of guaranteed the principal, which has fixed income and fits investors with low risk preference. Preservation of fixed income-based financial products is similar to bank deposits, but has slightly higher returns than deposit rates. It is suitable for people with deposits habit and conservative investment ideas.

Floating Income Capital Preservation: It has the same guarantee on principal, but the rate of return depends on whether banks are investing in the right direction and the actual profits or it is proportional to the actual profit and loss ratio. It is more suitable for robust investors.

Non-Floating Income Capital Preservation: These products are neither guaranteed by principal nor guaranteed by profit. It mainly invested in stocks, new issued shares, and structured products. The investment income goes up for higher yields or goes down for lower product price, which is similar to stock funds. It is suitable for risk preference and strong tolerant investors. Gains may be as high as 15% -20% or more, but may also be a loss.

1.2.2 Classification according to Marked Currency

Foreign currency marked finance products: they come forth earlier than the renmin wealth management products. It has advantages such as structural diversity and strong innovation ability. With their own strong overseas investment capabilities, foreign banks perform actively in this field, and provide a variety of investment topics, such as emerging-market stocks, luxury stock basket, and water resources stock basket, to assist investors to seize the capital market with lower risks.

Renmin wealth management products: with the vigorous innovation in the banking financial market is abundant of innovations. From the based innovation aspect, banks extended their investment products from government bonds, financial bonds and central bank bills to short-term financing certificates, loan trust plan, as well as purchase of new shares; and from the discrepancy innovation aspect, the financial products are different in the length of liquidity, and their categories are so complete that range from the yield preservation to the principal preservation and then to non-capital preservation. The most common forms are bonds, trust, new shares subscription and QDII.

Dual-currency managed financial products: according to expected currency appreciation, the Yuan and foreign currency financial products are combined innovatively into some new financial products, which can include: first, the capital is invested by two currencies and organized with operation mode by RMB financial products and by foreign currency financial products respectively. The principal and income will be paid in the original currency when comes to expiration. Second, it uses the RMB Yuan as investment principal and is organized by foreign currency financial management mode. The principal and yields, as well as the interest are all returned in form of foreign currency. Third, there are some other cross-investment models.

2. Analysis on Financial Product Innovation in Commercial Banks of China

2.1 Present Characteristics of Financial Product Innovation in commercial banks in China

2.1.1 More complicated product structure

Personal finance products was mainly invested in money market bonds, notes, short-term financing bonds, fixed-income products before 2006, but the current structure of financial products has been further innovated. Revenue structure can be linked with money market repot rate, the U.S. dollar swap yield rate, as well as stock index, which results in expanded investment fields. Especially when the stock market continues to boom, the hook in the stock market indexes and investment trust-based financial products have been innovated greatly.

2.1.2 More liquid products

Banking financial products is a kind of closed investment, and then it can not escape from risks of liquidity. Due to more serious market competition, it is easy to find out some products that can be redeemed in advance. Therefore, the liquidity of these financial products be stronger and stronger.

2.1.3 More flexible product life term and subscription amount

Stimulated by the more flourish market circumstance, every commercial bank pays more attention to production innovation. The life term of these financial products have been as short as one day, such as a financial product named "benefits from benefits" offered by Shanghai Bank. It offers convenience to investors. Considering subscription amount, the banks design the different subscription admittance level to satisfy the different kind of investors. This behavior attracts more customers for banks.

2.2 Problems of Financial Product Innovation in Commercial Bank of China

Although financial products have been innovated greatly in commercial banks in China in recent years, they are still at the first steps of development when compared with the advanced countries.

2.2.1 Distemperedness of marketing management system

It is popular in commercial banks in China that products are good but service is poor. The banks often fail to use effective marketing strategies and system to promote the new financial products, which limits the new ones'

market promotion and influences the banks' benefit negatively. Even in some situation, the banks mislead the customers by boasting investment return and keeping in risks, which lead to customers' partial understanding. Finally, the customers make complaints, and banks' credit become low and low.

2.2.2 Indifference on brand of financial products

Some famous banks in the world really emphasize brand construction and management of financial services and set up their own brands and slogans. The name and slogan used here come from the dire need to set up the brand image, to present their specialty as well as characteristics and to show the prestige of their customers. A good brand attracts more customers for banks. Nationally, commercial banks often ignore brand construction. Although they have learned some strategies from the world and set up some brands, they often fail to manage and maintain the brands. Such as, they often use individual name instead of a brand, which leads to customers' partial understanding of the product and further results in poor financial business promotion.

2.2.3 Lack of eligible professional financial stuff

Financial business is a kind of synthetic service. The practitioner should have synthetic ability, as well as systematic and professional knowledge. For a long time, the stuff in banks often specialize in one fields and are in short of synthetic understanding of deposit, bonds, stock, insurance, real estates and funds. Although the banks have organized a series of training for them, stuff quality is in urgent need of improvement.

3. Suggestion on Financial Product Innovation in Commercial Banks in China

3.1 Strengthen Products Design Innovation

The design and service of the financial product in commercial bank must take the customer as the center. Commercial banks should pay attention to the market in the process of product design in order to adapt the unceasing change of customers' demand. Besides, represent investment is the core of the products' structure. The main procedure includes:

First, the combination of the present investment service can not only guarantee the customer request and maintain the existing market share, but also excavate the new potential customers.

Second, commercial banks should improve the fussy condition of the consumptive loan procedure, and develop individual mortgage loan, the negotiable securities to pawn the loan vigorously and so on. When financing, the bank may develop the new product promptly to attract the customers according to the change of the consumption appetite.

Third, commercial banks should collect comprehensive financial information, the macroscopic information and so on, establish the financial information file and disseminate each kind of information in the way of consultancy and lecture through some methods, such as cooperating with specialized information company.

Fourth, commercial banks should expand the scope and enhance the level of the agency's business. After widely development of agency business, those big banks should make a further study to satisfy the customer's desire of appreciation, in addition to those agency service developing extensively.

Fifth, commercial banks should provide the comprehensive product. According to customers' outstanding of deposits and the volume of bank business, they determine the benefit degree to customers, aiming at attracting the customers to concentrates their deposits in a bank.

3.2 Value Segmentation of Financial Market

The financial products in our country should insist on the brand marketing and the personalized and innovative route. Only do the commercial bank set up their good brand image of financial products, then they can be distinguished from other financial services, avoid low level competition for the products' homogenization and maintain their status in the competition. Therefore, the commercial banks should subdivide the market, design financial products from the view of the different customers. As a result, banks can satisfy customers more effectively and guarantee to retain customer

3.3 Emphasize Marketing Channel's Construction

The banks should raise the financial product's science and technology service level unceasingly by the establishment of the perfect information network service system, the advanced network platform and the construction of individual credit system. At present, the domestic bank still takes the outlet as the main channel of the financial services, while the VIP services of telephone banking and on-line banking develop slowly, which is a big blind spot of the construction. However, the important trend of global financial development is that banks change from the original sole channel of business outlets service into the network service. From the

long-term analysis, the physical channel of individual financial service will turn to a third-level system: the financial center, the financial room, the special financial counter from “the wealthy and powerful family room. The future direction will turn to the electronic channel positively from the physical channel along with the development and the progress of information technology and internet technology. Self-help banking, on-line banking, telephone banking and mobile banking will be more important method of VIP service, while the data of traditional branch node will decrease year by year. At the same time, commercial banks should integrate the brand's communication and dissemination comprehensively; pay great attention to the unity and the continuity. In addition, they are supposed to determine a common goal in order to make sure that each brand behavior contributes to the accumulation of brand property through the market segmentation.

3.4 Raise Consumers' Financial Consciousness

One of the biggest problems faced by current financing market is the immaturity of financial market demand. It is obvious that the individual customers are quite conservative in the financial idea, and their investment is unitary and traditional. In fact, financing is to fulfill one's ambitions during every phase of one's life through managing individual financial resources correctly. Therefore, when commercial banks carry on the innovation of financing product, it must help customers acquire the correct financing consciousness. Simultaneously, banks should use each kind of financing tool fully, design personal financial controlling plan, and help the customer to achieve various goals during the different stage of the life according to their income, expenditure and risk preference during different periods. In the long run, the bank should enhance the establishment of strong brand loyalty and the stable customers' relations, and finally realize the win-win situation through the guidance of financing product.

3.5 Introduce and Train High-quality Talents

Our commercial bank should train the financial advisors in the aspects of financial knowledge, banking and the marketing skills intensively. They should guarantee that the financial advisors own specialized knowledge perfectly, is good at the marketing, the management and the innovation and have the good idea about customers' services. In this foundation, they complete product localization, development, marketing, and appraisal.

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