



On the Market Risks Prevention of China's Commercial Banks' Financial Product under the Financial Crisis

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Abstract

The year 2009 faces significant changes of economy. In front of the global financial crisis originated from Wall Street sub-prime mortgage crisis, China will be affected inevitably. The financial products market of the banking industry suffers from serious test. Starting from the concept, the classification, the risks, and the development of China's commercial banks' financial products, this paper analyzes the market risks of China's commercial banks' financial products under the financial crisis and advances specific countermeasures for China's commercial banks dealing with crisis and defending market risks.

Keywords: Financial crisis, Financial product, Risk prevention

1. The development of China's commercial banks' financial products

Recently, along with the stable development of China's economy and the fast growth of residents' financial assets, traditional investment ways tend to be far from satisfying people's diversified financial needs. Channels for investment are narrow. People just make choice between the products (national debts and deposits) with no risks and low interests and the products (stocks) with high risks and high return. Banks' financial products can fill up the blank. Therefore, more residents have increasing needs for financial services. Banks' financial products and services keep in innovation. Financial products become more diversified. The financial market grows fast.

1.1 The concept of banks' financial product

Banks' financial product is designed and issued by commercial banks by analyzing and researching potential target customers group. Commercial banks invest the collected capitals into relevant financial market or buy financial products, and allocate the interests among investors according to contracts. Due to the different operations, commercial banks' personal financial business includes the financial consultant service and the comprehensive financial service. Here the "banks' financial product" means the comprehensive financial service. In nature, financial product belongs to financial investment. This attribute determines the risks of banks' financial product.

1.2 The classification of banks' financial product and the characteristics of risks

(1) RMB financial product

RMB financial product is sorted into the profit-guaranteed and the non-profit-guaranteed. The former includes the fixed profit type and the floating profit type. The later includes the principal-guaranteed type with non-guaranteed profit and principal type.

(2) Foreign currency financial product

Foreign currency financial product is sorted into the foreign currency-combined option investment product, the structured financial product connected with financial derivatives, and the financial product with fixed profit at prime rate. The first does not offer guaranties for principals but with higher profits. The second mostly offers guaranties for principals. The third offers fixed profits.

(3) QDII financial product

QDII financial product is sorted into the principal guaranteed and the non-principal guaranteed. The former includes the fixed profit type and the related type (structured financial product). The later does not guarantee the return. The profits are completely floating.

Apparently, the principal guaranteed product has lower risks but may lose profits and other opportunity cost. For the non-principal guaranteed product, if investing in the asset with higher fluctuation, it may gain higher profits or suffer from larger losses.

1.3 The development of China's commercial banks' financial product

In 2004, the first money financial product of banks appeared. In Sep. 2005, in order to regulate the development of commercial banks' personal financial business, China Banking Regulatory Commission issued the Temporary Regulations on Administration of Commercial Banks' Personal Financial Service Management and the Direction for Risks Management of Commercial Banks' Personal Financial Service. Afterwards, the financial services of China's commercial banks step into a regulated and legal development way. In a short period, banks' financial services develop fast. In many commercial banks, the financial services have already turned into the growth point of middle services. The increment has surpassed the rise of deposits. In 2005, the sales of China's commercial banks' personal financial product reached 200 billion RMB. In 2006, the number was 600 billion RMB, 819 billion RMB in 2007, and exceeded 1000 billion RMB in 2008. The banks' financial product achieves fast development.

Because China's banking financial business has developed for a short period and laws and regulations are imperfect, it has confronted with a series of problems. For example, due to the financial crisis, in early 2008, the capital market suffers seriously, which indirectly causes the zero profit or negative profit of structured products. Afterwards, the wide prevail of financial crisis makes QDII product to the bad completely. Some experts agree that in the year 2009, the development of banks' financial product will be hard, which may make it to be mature and cool.

2. The market risks of China's commercial banks' financial products under the financial crisis

2.1 The risks caused by financial products' excessive innovation

China's commercial banks are lack of initiatives of product design and pricing. They fail to pay sufficient attention to product development and brand. All financial products are similar. As a result, these financial products have no core competitiveness. Therefore, all commercial banks have the problem of financial innovation. However, if the financial innovation can not be evaluated and controlled and the financial innovation only aims at profits, the innovation activities will bring about nothing but bubbles in financial market, and crises and disasters. American financial storm is resulted from the popularization of sub-prime mortgage crisis, what is caused by the excessive financial innovation of American financial institutions and the improper use of financial derivatives. The market subject does not consider the quality of assets but try to sell the new products by packaging, separating, or turning into securities after buying the derivatives. As a result, nobody cares about the real value of financial derivatives, which drives the extreme activities of short-profits pursuits, finally causing the serious financial market crisis. By learning from American financial crisis, we should re-examine the financial product innovation, making risks of financial product innovation under the control.

2.2 Commercial banks' financial products face credit risks.

Some commercial banks do not follow the principle of balancing the interests and the risks in designing financial products. They do not develop products and design investment combination in perspective of assets allocation. They do not predict the return of financial investment combination by scientific and reasonable methods. They do not set up relevant market risks supervising and examining indexes and the effective system for identifying, measuring, supervising, and controlling market risks. "They do not perform customer evaluation effectively." The regulatory department finds that some commercial banks do not evaluate customers' risks preferences or merely finish this task in form. They do not understand customers' financial conditions, investment goals, investment experiences, risks recognition, and risks acceptance exactly. They do not evaluate whether the financial product in promotion is right for a customer or not, not mention to inform the customer about the evaluation suggestions.

2.3 Commercial banks' financial products face the compliance risk and the market risk

Along with the enhancing macro economic adjustment and control, and the increasing problems in small and medium-sized banks, the assets pool financial product based on check assets and credit assets tends to rise. Under the background of global inflation pressure, US dollar continues to depreciate and foreign market is changeable, which make commercial banks' financial products face higher and higher risks.

2.4 There are defects in some commercial banks' financial product system and personnel management

Although it sets up the personal financial system, other systems do not change, what causes a series problems, affecting the development of personal financial services. Can not comprehensively consider personal financial services' each

factor and ring, or make wide development and deep dig on personal financial services, no regular and unified operation and management procedures. Can not realize an overall risks management and control over personal financial services' each ring. Some commercial banks simply take the loan tellers, legwork people, and counter workers as customer managers without any training. Constrained by former thinking and work fields, these customer managers from different positions are lack of the comprehensive idea of financial services, financial service knowledge, and marketing techniques. They can not fulfill their work in a short period.

3. The market risks prevention of China's commercial banks' financial products under the financial crisis

3.1 Make reasonable financial product innovations

In commercial banks, the new product development leaders group, the scientific and technological department, and relevant operational departments should cooperate together to speed up the innovation of financial products based on researching and digging out customers' needs completely. As for some hot services, such as motor consumption loan, house consumption loan, and personal mortgage loan, commercial banks should simplify procedures, loosen conditions, and improve services in order to enlarge the market share, forming an advantage of scale. By means of the high-tech electric net, integrate and upgrade present products, taking bank card, online bank, and telephone bank as carriers. Supply valuable information and consultation for customers, improving the value of customers' assets. Understand the distance of financial services with foreign banks and make financial innovation. Enhance the depth and width of trans-bank cooperation, and integrate the financial services, such as banks, securities, insurance, funds, and trust, offering the comprehensive services.

3.2 The financial products should be designed concisely, considering both return and risks.

For banks, most customers are common. For these customers, the simpler the product is, the more the bank explains it for customers, and the better it is for the sell. The bank should reveal the risks of the financial product completely in issuing, fulfilling the obligation of informing risks. The bank must make it clear concerning the product's operational mechanism, the fee, and relevant articles that may be adjusted along with the change of market. The bank, as the issuer of financial product, should perfect the product design management mechanism, designing the financial product considering customers' interests and acceptance, developing the product and designing the investment combination in perspective of assets allocation, predicting the return of financial investment combination by scientific and reasonable prediction methods, and building relevant market risk supervision and examination indexes and the effective system of identifying, measuring, supervising, and controlling market risks.

3.3 Banks should keep an eye on financial products' risks concerning basic assets

One of important element caused the American financial crisis is the security extension of sub-prime mortgage loans. Risks are originated from the wide contract breach of sub-prime loans subjects, together with the exaggerate effect of financial derivatives as a leverage. All these factors contribute to the happen of unprecedented crisis in American financial market. This crisis teaches us a lesson concerning the design of banks' financial products. Firstly, the basic assets in designing the financial product demand for higher credits. Besides, guaranties and insurance are inevitable. Secondly, the chain for basic assets securitization should not be too long.

3.4 Honest and credit service

Commercial banks operate credits. Credits are the base for commercial banks operations. Along with the development of financial market and the change of global financial environment, such a fundamental principle or moral standard for commercial banks has been neglected by foreign developed markets. Apply an entrance quality management system for the sellers of financial products. Promote the compulsory quality certification system for personal financial services. Set up the continuous training, trace evaluation and evaluation system, making relevant workers obtain necessary professional knowledge, industrial knowledge, and management ability. By informing them with relevant laws and regulations and necessary professional morals, regulate their behaviors in selling.

3.5 Competitive human resource development

Firstly, form a certification system for professional financial planners. The experts in domestic banks serving top customers by supplying personal financial services are not professional. There are not financial planners in a real sense. Secondly, train present financial consultants systematically and comprehensively. Make up a systematic training plan for financial consultants. Pick up excellent workers who master certain financial knowledge, know marketing skills, and understand customers' psychology as candidates. Besides, set up a horizontal associated training mechanism with securities and insurance industries. Help the candidates realize a purposeful communication about positions. Help them familiarize all businesses of banks as soon as possible in order to make them work independently.

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