Analysis on the Asset and Liability Management of Commercial Banks under the Background of Strict Supervision

Zheng-Chao ZHANG¹,a* and Nan WU¹,b,

¹Bohai Universityyy, Keji Road, Jinzhou, Liaoning, China

*Corresponding author

Keywords: Commercial bank, Stricter Regulation, Asset and Liability Management.

Abstract. Since 2017, domestic financial regulatory policies have become increasingly stringent, and regulators have formulated a series of regulatory measures. Commercial Banks are facing multiple pressures, such as increased risk exposure on the asset side, intensified deposit competition on the liability side and insufficient capital. Under the background of strict supervision, commercial Banks need to strengthen the ability of asset and liability management, complete transformation and upgrading. With income as the core, establish a diversified asset allocation system, take service as the core, improve the management model of active liabilities, pay attention to risk management and control, and take measures to ensure capital adequacy ratio.

The Background of Strict Supervision Policy

In recent years, with the acceleration of interest rate liberalization, the deposit and loan interest margins in the banking industry have been gradually narrowed, and the constraints in terms of superimposed credit scale and capital have been increasingly strengthened. The pressure on commercial Banks has been further increased. To improve profitability, increase the intensity of the business innovation, commercial Banks in the first place is through various channels to evade credit constraints such as lending in disguised forms, and then under the background of shortage of "asset" expand the scale of the financial markets business, The profitability of the bank is improved by means of "more quantity and lower price"[1], but at the same time, financial risks and hidden dangers are also accumulating.

First, Commercial Banks Try to Circumvent Regulatory Constraints, Leading to the Prevalence of Channel Business

Before significant progress was made in interest rate liberalization, Commercial Banks can achieve profit growth by simply absorbing deposits and expanding loan scale, achieving scale expansion became a major problem for commercial Banks. Under this background, channel business emerges at the historic moment, Trust schemes were the first to become bypass methods. As CBIRC continuously upgrades its supervision of bank-credit cooperation and the issuancing of Regulating the Asset Management Business of Financial Institutions, securities firms asset management, fund subsidiaries gradually become alternative trust plan of the new channel. Channel "innovation" business breaks through multiple regulatory constraints and promotes the expansion of bank asset scale while circumventing regulatory constraints. However, due to the insufficient exposure of risks of assets packaged with "channels", credit risks slowly accumulate in the financial system. Once credit events break out, risks will spread rapidly between Banks and non-bank financial institutions, forming a cross-infection situation.
In Addition, the Size of the Financial Markets Has Expanded Dramatically, With Money Moving Out of the Real Economy and Idling within the Financial System

With the acceleration of interest rate liberalization, the deposit and loan interest margins have been greatly narrowed, and it has become the consistent choice of commercial Banks to reduce this adverse effect by adopting the method of "quantity compensation". However, in 2014 and 2015, the loose monetary policy, the sluggish economic trend, and the weak demand for real financing made the "asset shortage" a new problem for commercial Banks. In response, many Banks try to find a way in the financial market. The asset scale of commercial Banks grows rapidly through issuing inter-bank deposit certificates, inter-bank financing and leveraging on the liability side, and then directly or indirectly investing inter-bank deposit certificates and inter-bank financing on the asset side. However, the rise of these business models has also led to the "puffiness" of the financial system, and the lengthening of capital and risk chains has led to hidden risks in the internal liquidity of the financial system. Since 2017, with the introduction of various regulatory policies, preventing and defusing financial risks has become a major battle. Faced with tighter regulation, the practice of commercial Banks making profits through "puffy" scale expansion is a thing of the past.

The Impact of Stricter Regulation on the Assets and Liabilities of Commercial Banks

In accordance with the overall requirements of “serving the real economy, preventing and controlling financial risks, and deepening financial reforms”, Since 2017 a series of financial supervision regulations have been unveiled and put in motion by financial supervision department to regulate the hidden debts of local governments and to appropriately control the flow of funds to the real estate sector, to enterprises that failed environmental impact assessments, and to industries with overcapacity, marketing the liberalization of finance, the five-year financial expansion cycle characterized by shadow banking and asset management boom has ushered in a watershed. The financial cycle has entered a shrinking era from prosperity, the growth rate of broad money has declined, the credit environment has tightened, commercial Banks especially small and medium-sized Banks face multiple pressure such as declining asset quality, intensifying deposit competition and insufficient capital, which has brought new challenges to the management of asset and liability of commercial banks.

The First Problem Facing Commercial Banks is Declining Asset Quality

After the implementation of the new regulations, enterprises have been blocked by the off-balance sheet financing channel of “price-for-money”, and the financing demand has gradually returned to the table[2]. On the one hand, the new regulations on the restrictions and regulations on investment in non-standard assets have raised the financing pressure of credit-restricted industries to a certain extent, pushing up the risk of default, and thus increasing the possibility of the increase of non-performing assets of commercial banks. On the other hand, the non-standard asset return table also increased the bank’s weighted asset risk ratio and reduced its capital adequacy level, which in turn pushed up the interest rate of the credit business on the table.

At the Same Time, Commercial Banks Have to Deal with the Problem Putting the Off-balance Sheet Assets Back to the Table

With the strict supervision of banking, entrusted loans, bonds, peers, etc., the business of off-balance-sheet, non-standard, channel, debt-to-equity swaps of commercial banks is strictly restricted, and banks return to traditional deposit and loan business. Out-of-balance sheet liabilities return to assets in the statement, class credits returned to true credit, and new credits exceeded expected growth. At the end of the fourth quarter of 2018, the domestic and foreign currency assets of China’s banking financial institutions were 268 trillion yuan, an increase of 6.3% over the previous year [3]
In Addition, Commercial Banks Face Increased Pressure from Competition for Deposits

Since 2017, with the gradual strengthening of supervision, the financial system has actively adjusted its business to reduce internal leverage, and the growth rate of M2 and the derived deposit have decreased accordingly. The practice of making interbank deposit receipts and absorbing interbank deposits to make up for general deposits will be subject to stricter restrictions [4]. Coupled with the impact of multiple factors such as Internet finance, interest rate liberalization, and diversification of financial products, commercial banks, especially some small and medium-sized commercial banks, are under increasing pressure to shrink their liabilities.

Asset and Liability Management Strategies in the Context of Strict Supervision by Commercial Banks

The First Thing for Commercial Banks to do is to Control Risks While Ensuring Capital Adequacy

They should actively shift to a light asset model and expand intermediary business and investment business with small capital consumption but strong profitability. Continuously improve asset quality control capabilities, reduce the erosion of asset quality and profit, and do a good job of cost control such as pricing, review, and post-loan for high-margin and high-risk loan business, and improve operational efficiency. It is necessary to fully grasp the opportunity, actively manage the fund pool of asset management products, fully realize the net value management of products, and establish a wholly-owned pipe company to improve the research and development capabilities and follow-up management capabilities of bank asset management products to ensure non loss of the high-quality customers and financial assets. Establish a reasonable capital assessment and planning system. Actively explore overseas distribution markets and innovative business varieties.

Furthermore, They Should Improve Their Asset Management Capabilities

First, they should focus on the customer, coordinate the overall management of the on- and off-balance sheet assets business, promote the integration of traditional credit, asset management, inter-bank, investment banking and other businesses, increase customer stickiness through asset business, and promote the growth of low-cost settlement deposits. At the same time, they shall actively increase product innovation to meet the needs of upstream and downstream customers. Second, they should take policy as the guide, adapt to the situation, and optimize the allocation of bank credit resources. On the one hand, they must actively implement the national development strategy and allocate more credit resources to areas that conform to national policies. On the other hand, it is necessary to continue to push forward the overcapacity industry, actively promote mergers and acquisitions, clean up and rectify assets such as inefficient assets, inefficient assets, and multi-layer nesting, accelerate the disposal of non-performing assets, and promote the sound development of asset business. Third, they should actively revitalize existing assets and strengthen asset circulation. Opening up asset exports, from asset holding mode to trading mode. Through the securitization, credit asset transfer and other means to normalize the sale of assets, the introduction of high-quality high-yield assets, through the adjustment of structure, rapid turnover and other means to improve the dynamic adjustment of capital, liquidity, concentration and other capabilities.

Finally, Commercial Banks Should Adopt Differentiated Liability Management Strategies

From the perspective of regulatory trends, the future competition of the banking industry is largely a competition for low-cost stable funds. Without core deposits, all transformations, innovations, and business restructuring will be difficult. In this regard, they must continue to adhere to the core position of core deposits, and focus on the customer, optimize and improve customer service quality and customer wealth management capabilities, and increase customer viscosity. Increase customer expansion, rely on the Internet and other more efficient channels to increase customer base, increase deposits for potential customers such as pension, medical care, new rural areas and long-tail customers, and precipitate core deposits. Second, they should steadily develop active liabilities. In
line with the regulatory situation, they shall complete the “two-way” of general deposits and other liabilities from a macro perspective. Cost-oriented, strengthen the overall management of other types of liabilities, rationally arrange the structure and duration of the burden, through the on-market, off-exchange money market and domestic and overseas markets, as well as bond financing, central bank borrowing, wealth management funds and other ways Dispatch, optimize the structure of funds inside and outside the table, and improve the efficiency of cross-market capital operations. Third, they can take steps to innovate and expand low-cost capital. Fully grasp the channels and technological changes under the condition of customer, convenience, security funds liquidity demand rapid growth trend, improve short-term funds management mode, strengthen settlement, payment and transaction types of business platform, scene, product system, promote customer short-term capital flow and effective precipitation, reduce the average cost of debt. The characteristics of Internet finance, such as asset-light, low-cost and open mode, are organically combined with the strategy of bank balance sheet reconstruction, which runs through the whole chain of bank operation and management, speeds up the business transformation and changes the operation mode of balance sheet, and makes the Internet an important breakthrough point for the reconstruction of balance sheet.

Conclusion

Financial strict regulation of commercial Banks in the short term assets and liabilities management brings certain pressure, but in the long run, strict regulation is beneficial to standardize market order, Commercial Banks should take this opportunity to actively change their business mode, improve the asset and liability management level and risk control ability, and achieve transformation and upgrading.

References


