

Study about the impact of financial disintermediation on the management of China's commercial banks

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Abstract

With the development of economic situation and the continuous advancement of financial reform, China has appeared the phenomenon of financial disintermediation which is running outside the banking system, bypassing the financial intermediaries such as banks. The rapid growth of financing capacity in the capital market has weakened the absorptive capacity of deposit-taking institutions such as banks. At the same time, the rise of direct financing market brings more financing channels to enterprises, which means the role of banking media in the traditional sense is weakened. This will inevitably bring some challenges to the development of the banks. Therefore, this paper takes the financial disintermediation as the research object, analyzes the current situation and reason of its development in China, and its influence on the traditional business of commercial banks in China. Finally, this paper puts forward some policy suggestions on the future development of commercial banks, in order to provide some reference for the healthy development of commercial banks in China.

Keywords

Commercial Bank; financial disintermediation; impact.

1. Introduction

With the development of economic globalization and financial deepening, the financial disintermediation has gradually become a popular trend. However, the reform of financial system and the change of financial supervision environment provide some conditions for the financial disintermediation. So, the financing model with indirect financing as the main and direct financing as the secondary, which has been used in the past, will be difficult to continue. At the same time, the pattern of our country's banking - led financial system will change, and the old development model will be shaken.

The impact of financial disintermediation is multifaceted, However, the impact on commercial banks in China is the first, and it is bound to challenge the intermediary function of commercial banks. Therefore, it is of theoretical and practical significance to study the current situation, reason and influence of the phenomenon of financial disintermediation in China and put forward policy suggestions.

2. The current situation of financial disintermediation in China

Relevant data shows that in recent years, the intermediary role of commercial banks in our country presents a downward trend, the growth rate of domestic savings deposits is declining, the proportion of loans in enterprise financing is also declining, the traditional business began to shrink and narrow margin, leading to the source of commercial bank funds and the use of funds blocked, which makes commercial banks to varying degrees of liquidity risk and credit risk.

2.1 The deposit disintermediation and loan disintermediation intensified

According to the data survey (Table1-1), from 2009 to 2016, the scale of social financing in China increased from 13.9 trillion Yuan to 17.8 trillion Yuan. During this period, the proportion of indirect financing (RMB loans) fell from 75.65 % to 66.69 %, while the proportion of corporate bonds and

non-financial corporate equity financing in the scale of social financing increased from 11.3 % to 23.82 %. In the household financial assets, the proportion of bank deposits declined, while the residents' investment in stocks, funds, insurance and financial products increased, which formed the financial disintermediation of the bank debt.

Table 1. Social financing scale structure, 2009 – 2016 Unit: million Yuan

Time	Scale of social financing	Local currency loan	Foreign currency loan	Entrusted loan	Trust loan	Non - discounted bank acceptance	Corp-orate bonds	Stock financing in non - financial enterprises
2009	139104	95942	9265	6780	4364	4606	12367	3350
2010	140191	79451	4855	8748	3865	23346	11063	5786
2011	128286	74715	5712	12962	2034	10271	13658	4377
2012	157631	82036	9164	12841	12847	10499	22551	2507
2013	173168	88916	5848	25466	18404	7755	18113	2219
2014	164133	97813	3556	25069	5174	-1286	23817	4350
2015	152936	112692	-6427	15911	433	-10568	28248	7603
2016	178023	124371	-5639	21854	8592	-19533	29993	12415

Data source: the website of the people's bank of China

2.2 The loan " disintermediation" of small and medium-sized enterprises is obvious

China's financial disintermediation is more prominent on the surface of SMEs loans. This is because the development of China's securities market is relatively backward, the bank limited the distribution of loans to large enterprises, especially state-owned enterprises, and the credit concentration is high. In this case, SMEs are difficult to obtain bank loans, so they gradually choose non-financial market or private lending.

2.3 A variety of non - bank lending methods exist

In recent years, various financial innovation companies, such as private placement fund, third party payment, P2P credit service platform, etc. have developed rapidly. Microfinance is combined with the internet, social network and other innovative technology, innovative financial model. And the phenomenon of providing credit loans for individuals is widespread.

3. The cause analysis of financial disintermediation in China

3.1 Government support for direct investment

It is an important content of the current financial system reform to reconstruct the reasonable financial market financing pattern through the adjustment of system and policy. In recent years, under the leadership of the central bank, from the banks, securities and other aspects of the intensive development of the financial disintermediation system and policies. Its main purpose is to increase the proportion of direct financing, to disperse the financial risk of large amount of current in commercial banks, and to promote disintermediation and disintermediation of finance.

3.2 The development of internet finance

With the rapid development of internet technology and the strong demand of private lending in China, the peer - to - peer lending platform in China is more and more. In June 2007, the first P2P company paipaidai was founded; the operation platform reached 200 in 2012; at the end of 2014, China's online lending platform reached 1575, with trading volume reaching 2,528 billion Yuan. The network loan platform has the following aspects to the competition of commercial banks: first, the P2P adopts the wholesale loan mode, which makes the efficiency of the loan increase greatly; second, the business model is formalized. Again, the platform agencies and the sponsoring agencies are large. At the

financial end, the yield of P2P products is much higher than the commercial bank deposits and financial products, at the same time, the risk and management of this product has developed more mature. Therefore, more and more user groups are more inclined to buy P2P products.

3.3 Development of shadow banking

Shadow banking refers to institutions that operate banking and perform bank functions without the supervision of the government. The shadow banking in our country is dominated by commercial banks, developing shadow banking, in order to avoid the restriction of regulatory policy, and to reduce the cost and increase the profit space to some extent. Therefore, the shadow bank of our country is called "the shadow of the bank", it is the extension of the traditional business of commercial banks. The Chinese shadow bank has been developing rapidly in recent years. According to the definition of shadow banking in the notice on strengthening shadow banking supervision issued by the end of 2013, the loan provided by trust companies and other shadow banks in China in 2013 amounted to 5.2 trillion yuan, accounting for 30 % of the total social financing. The continuous development of shadow banking makes the intermediary role of the traditional banking system continue to decline.

4. The impact of financial disintermediation on the management of commercial banks

4.1 The impact on the traditional business of commercial banks

First of all, for the assets business of commercial banks, the financial disintermediation shunt the enterprise loans, and reduce the loan growth of commercial banks, which broadens the financing channels of enterprises. Secondly, for the business structure of commercial banks: the financial disintermediation reduces the benefit of commercial banks from the deposit and loan spreads, especially for the small and medium-sized commercial banks. The loss of high-quality customers leads to a decrease in profits, and thus makes the status of small and medium-sized commercial banks more disadvantageous. On the contrary, the decline of profitability of banks and the difficulty of capital turnover have prevented some SMEs from obtaining loans from banks and forced to turn to private lending, thus creating a vicious circle.

4.2 The impact on the business model of commercial banks

The intensification of financial disintermediation forces the transformation of commercial banks, and the "mixed industry" trend appears in the business model. Under the mixed operation mode, the operation business of each sub - industry is integrated and infiltrated, which will help the financial institutions to improve profitability and competitiveness. This is a major trend in the transformation of the business model of financial institutions. In order to maintain and enhance the competitiveness of the banking industry, the regulatory agencies gradually abolish the restrictions on banking business through a series of policy guidelines, which creates a favorable institutional environment for the transformation of China's commercial banks.

4.3 The impact of risk management on commercial banks

First of all, due to the impact of "financial disintermediation", many high-quality large enterprises choose stock bonds and other ways of direct financing, which makes the proportion of small and medium-sized enterprise loans in the bank credit business increased significantly. Therefore, commercial banks need to consider the repayment ability of SMEs, loan pricing and how to avoid credit risk. Secondly, the commercial banks expand intermediary business and increase the proportion of direct financing, which leads to the probability of market risk is also growing. Finally, commercial banks have higher management requirements for liquidity risk. The deepening of financial disintermediation results in the decrease of the stability of liabilities and the phenomenon of short deposit long loans. Therefore, banks need to propose more effective management of the liquidity of funds.

5. Policy recommendations

5.1 Improvement of traditional banking quality

Commercial banks should rely on the marketization of interest rate to formulate competitive deposit and loan interest rates. Commercial banks should establish the customer - centered concept and principle to improve the quality of traditional banking business. For example, commercial banks strengthen market marketing, expand retail customers and small and medium-sized enterprises with weak bargaining power, and actively provide such financial services to meet their needs.

5.2 Development of "light capital, efficient" business

The so-called light capital business, that is, "the ratio of the income / risk of the business is high.". Commercial banks should pay attention to wholesale banking, wealth management and asset management. Wholesale bank business is due to the trend of financial disintermediation, is conducive to optimize the social financing structure and improve the efficiency of financing. Wealth management, asset management and other business, carry out the comprehensive operation across capital market, money market, bond market, inter-bank market, non-bank financial institutions market and so on. This creates strong investment advice, asset management, and transaction service capabilities.

5.3 Development of Internet finance

Commercial banks should make full use of their own funds, resources and customer advantages to accelerate the development of the financial internet, to use the high efficiency and low cost of the internet to provide fast, convenient and high quality financial services to customers. In addition, commercial banks can reach strategic cooperation with internet financial giants to jointly provide financial products, achieve resource sharing, complementary advantages.

5.4 The improvement of risk management ability

Under the trend of financial disintermediation, the business of commercial banks is diversified. Financial innovation business is emerging, and the business relevance between financial institutions is growing. However, this makes commercial banks bear more serious liquidity risk. The first premise of increasing profitability of commercial banks is to ensure safety, so commercial banks should strengthen the control ability of the background, establish a unified professional operation platform, constantly strengthen the risk monitoring of emerging businesses, and constantly improve the ability and level of risk management. At the same time, commercial banks should pay attention to the liquidity risk, credit risk, operational risk and other common risks. They should constantly improve the profitability of funds on the basis of security.

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