

The Personalized Development of Private Banks in China

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Abstract. In June 2015, CBRC issued “On guidance to promote the development of private bank”, reflecting its importance in banking reform. This article starting from the construction background of private banks analyzes the advantages and disadvantages of private banks, further to explore the path of personalized development. The conclusion will combine the characteristics of the current development of private banks in China with community banks’ management model in America, giving own view on the future development of personalized private bank.

1. The establishment background and current development status of private banks

China's small and micro enterprises are an important part of the national economy. Its total industrial output value accounts for 60% of China's total economic output. However, the problem of financing difficulties for small and micro enterprises has not been properly solved. Traditional banks is impossible to effectively discover the financing needs of small and micro enterprises. At the same time, due to the consideration of loan risks, the loan interest rate of small and micro enterprises has been raised, which has caused the problem of small and micro enterprises to raise funds. This shows that the service system of the entire banking financial institutions in China needs to be perfect. The primary task of setting up private banks is to solve the financing needs of the private economy. Small and micro enterprises need more innovative financial products and services. Therefore, the CBRC encourages private capital to set up private banks that are self-financing. The birth of private banks will break the monopoly of state-owned banks and effectively improve the Chinese banking system. At the same time, its existence promotes competition in financial markets, accelerates the reform of state-owned financial enterprises and optimizes and upgrades the industrial structure. Private banks will become financial intermediaries between private funds and private enterprises, rationally guiding the flow of funds, optimizing resource allocation, easing the contradiction between capital supply and demand and improving the efficiency of capital use. Therefore, the construction of private banks is a rigid demand for the development of the real economy in China.

Although private banks are now a new type of financing channel for private capital, compared with the development of spurt in the past few years, the development of private banks is returning to rationality in recent years. Under the general direction of clearly serving the real economy, private banks have launched their own personalized management mode which is different from the traditional bank, the development of individualized development featuring geography, service objects and innovative finance can be said to be the operating highlight of private banks, which embodies that private banks serves for small and micro enterprises. The personalized development strategy will run through all private banks and become an important pillar supporting the development of the entire private bank.

2. Advantages and disadvantages of private banks

The biggest advantage of private banks is that they are completely operated through the ‘civilian + private’ mode. The relationship between non-performing loan ratio, return on assets and income and expense ratio is proportional. This is determined by the government's social interest hypothesis. Due to the influence of positive and negative externalities, society can be separated from effective production status and the best resource allocation cannot be achieved. Therefore, it requires

government intervention, which means that the government will invest funds in projects with high social benefits and relatively weak economic benefits. This shows that state-controlled banks often do not necessarily invest in good economic projects because it bears greater social responsibility. However, private banks are more flexible at this point, which also allows them to provide financial services to a wide range of micro-enterprises and provides a possibility for innovative credit. In addition, private banks have used their Internet and big data technologies to form their own low-cost advantages. The outlets of private banks are generally rare. There even exists an organizational framework for fully realizing online banking. This seems to be a shortcoming, which is not conducive to the brand effect, but it is based on powerful Internet application technology to support and upgrade all paper information to electronic information, its simple and fast operation method is more in line with the development needs of the e-era, and more popular with young people. At the same time, the sudden drop in the number of outlets directly reduced a large amount of operating costs, physical costs and labor costs, thereby indirectly reducing the financing costs of enterprises, and solving the problem of high loan costs for small and micro enterprises. In addition, private banks are taking the road of individualized operation, and will combine more service objects in the future to introduce a richer range of customized financial products

The biggest disadvantage for private banks is hard to control the risks. Private banks serve small and micro enterprises. This area is a high-risk area that is not easily covered by traditional banks. Although the current non-performing assets of private banks are only 0.54%. It is still in a pilot state, and many businesses have not yet fully developed, and the rate of non-performing assets will definitely rise in the future. Although we can rely on big data means to conduct credit evaluation on enterprises, our country lacks such a credit rating system and credit management system. Private banks as pioneers face so many problems such as which indicators of the enterprise are used for evaluation, whether the information source of big data is reliable, whether the evaluation operation reaches the level and standard of lending, etc. Secondly, after the state capital withdraws from the private bank, the private capital shoulders all the capital operation of the bank. Therefore, the private bank is not as good as the traditional bank in the company's shareholding structure and corporate governance. Excessive dispersion and centralization are not suitable for the internal development of the bank. The balance of equity is a must, and there must be major shareholders who can compete with each other, but the combined ratio cannot exceed the sum of all minority shareholders. Finally, subject to regulatory and technical constraints, private banks currently offer relatively simple products. The Internet financial products of private banks are no different from those of large traditional banks in building a financial ecosystem. Therefore, In the future, how to make greater use of the role of the Internet will be subject to the investigation of the positioning of different customers in the future.

3. The prospect of individualized development of private banks

3.1 The Reference and Enlightenment of American Community Banks to the Personalized Development of Chinese Private Banks

3.1.1 American Community Bank's business model and personalized service

Because of different national conditions, the United States is a big capitalist development country. There are also thousands of community banks with branches in various states. They are located in the streets of each states, providing regional service. The main customers are the nearby ordinary residents and small and micro enterprises. It is such a small bank that supports nearly 40% of small and micro enterprise loans. The business content of these banks is also very simple, that is to tailor financial services for customers. They come from private enterprises and grow together with private enterprises. Due to their limited business scope, the information and data of their main customers are relatively easy to obtain. When approving loans, they often rely not only on financial statements and credit records, but also on the data based on the bank and their long-standing business capital transaction data information and the consideration of customer integrity. These banks can invest in enterprises at the beginning of the development of the enterprise, and thus always participate in the growth of the enterprise. They can also gradually establish contacts through intermediate businesses

such as settlements, and even visit the enterprises in person through on-the-spot investigations to gain an in-depth understanding of the entire enterprise's operational status. In the deposit business, the help of the deposit insurance system in the United States has established the trust of regional customers, and also enables small banks to set a deposit interest rate no lower than that of large banks, thus absorbing a stable source of deposits. Every community bank must be responsible for each of its own loans. The quality of its loans will be directly supervised by the Federal Reserve. Any non-performing loans will be recorded and directly linked to their assessment and their future development.

Based on the geographical orientation of the market, the US community banks have tailored their financial products and services to meet the needs of different customer groups in order to form a good interaction with customers. The employees of these banks can gain the trust of customers to a certain extent by establishing good community relations with customers, and the employees themselves are members of the region. They are very familiar with the information inside the region and lay the basis for the development of personalized services. Community banks in the United States can also develop financial products that are closer to the customers based on the structure of the people within the region. These novel products are often the big banks that have no time and energy to complete. Even these banks actively invite customers to one-on-one have specific financial services based on the customer's financial operations in the bank, which develops personalized financial services to the extreme.

3.1.2 The Personalized Service of Private Banks in China

The private banks in China with obvious regional characteristics have certain geographical restrictions on their business scope, and the service targets are also adapted to local conditions. Although the private bank is not like the United States private banks can be subdivided into various communities, it is quite successful in starting private banks in China. The geographical restrictions can also help private banks to obtain a relatively stable source of funds in the initial stage, and fully understand the business management of each company, laying the foundation for personalized financial services. After the development of private banks in the future tends to be stable, they can further liberalize geographical restrictions, encourage more cooperation between their peers and even set up branches in other places, thereby expanding their business scope and establishing their own brands. Due to the large population base, private banks in China cannot do as much as the US community banks go deep into the customer base, but our private banks can build relationships with customers through the construction of personalized services. The reason for the customer choosing the private bank must be able to enjoy more high-end services in addition to the bank's income. In addition to the service environment and efficient work, being respected and recognized is the highest demand that customers seek. In personal business, in addition to professional guidance throughout the financial business, the bank can derivate services and try to meet the non-financial service needs of customers through the form of questionnaires, which allows customers to participate in the development of products, so that they can better understand the customer's information on the range of profitability, risk appetite and investment period. Only by truly meeting the needs of customers' diversity can we truly cultivate a focus on the customer. In the public business, private banks should take the initiative to develop in order to establish good relations with corporate customers, bank personnel can be arranged to provide financial services to customers within the company. Because private banks come from the private sector, and the relationship with private private-owned enterprises is better than other banks and financial institutions, it is easier to establish long-term cooperation through relationships and cultivate a group of outstanding public customers.

3.2 The goal of Personalized Development of regional private banks

The ultimate goal of the personalized development of private bank is to firmly link its brand and image with the region, so that when customers mention the region, they first think of the bank with obvious regional characteristics. So private banks continue to expand their business, expand product coverage, and further increase market share. However, the formation of brand image is a relatively slow process. Banks need to find their own position in the hearts of customers. Once the customer's mind has established the image of the brand, it is difficult to change. At present, private banks are in

the early stage of development, and the innovation and differentiation of products and services are not obvious. Their service contents are mainly based on large deposits and small loans, regional deposits and regional loans, public deposits and public loans, etc. It is inevitable to homogenize. The development of personalized development can make your own brand a new breakthrough and build a longer-lasting brand awareness in the hearts of customers.

4. Conclusion

The development of private banks is an inevitable outcome of China's economic development. Its emergence has broken the monopoly of state-owned banks, solving the problem that traditional banks can't cater to the financing needs of small and micro enterprises and increases the credit of small and medium-sized enterprises. Through the construction of personalized roads, private banks have formed a unique and more efficient management model that is different from traditional banks, which has driven the development of the entire financial industry and the banking industry. The development of private banks has also helped China's current financial reforms, which more effectively allocates financial resources, boosts industrial restructuring, improves the modern financial system and enhances the ability of financial services to the real economy. The demand for the development of private banks is not only the demand for the development of the bank's own business, but also to solve the current lack of financial product innovation in financial institutions, to avoid the homogenization of financial products, to make emerging financial instruments further keep up with the speed of current economic development. to complement the gap between the supply and demand of financial products and meets the financial needs of all levels. Although the innovation of private banks in business models and financial services is ahead of the curve, many private banks have developed personalized products and service systems. However, due to supervision and lack of certain support capabilities, many innovative products are not actually operational in recent environment, and it cannot reflect the characteristics of its individualized products. As a result, most of the development and innovation of private banks mainly focus on microfinance products, and the development of private bank is slightly dull. We hope that the personalized development of private banks will receive more comprehensive support such as supervision and technology.

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