Future Outlook for the Brokerage Wealth Management Track after the New Capital Management Regulations: Take CICC Wealth Management as an Example

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Abstract. Since the development of China's capital market, it has followed the path of many developed countries for a couple of centuries in just a few decades, and while it has achieved fruitful results, problems have also gradually emerged. Taking asset management as an example, a series of problems such as rigid exchange, excessive leverage, and regulatory arbitrage have existed simultaneously for some time in the past. In order to prevent and address the systemic risks in the asset management industry, on April 1 2018, the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange jointly issued the Guidance on Regulating Asset Management Businesses of Financial Institutions (hereinafter referred to as the New Regulation on Asset Management). The new regulations on asset management will prohibit banks from offering risk-free and high-interest rate products and will also restrain the phenomenon of "rigid exchange" in trusts, which, combined with the implementation of the policy of "no speculation in housing", will shift the focus of wealth allocation to the wealth management business. At present, China's wealth management business is still in the initial stage of development and is still a blue ocean market. Commercial banks are still the first choice for most residents in China due to their well-established and mature systems that have been in operation for many years. However, some outstanding head brokerages and third-party institutions are growing rapidly, winning the favour of some high net-worth individuals with their advanced and unique financial products, and small and medium-sized brokerages are also following suit. This paper takes CICC Wealth Management as the subject of study, focusing on how it has taken the opportunity to broaden its wealth management track after the new regulations on asset management, and how it has used high net-worth individuals as the launch point to gradually reach the general population. At the same time, this paper explores the future development direction of brokerage firms' wealth management. The paper concludes that brokerage firms should take advantage of the opportunities that arise in the market after the new asset management regulations, vigorously cultivate the professionalism of their staff and businesses, and persist in digital reform. These firms should also take over the market space left by commercial banks and trust institutions under net worth reform, and persist in developing wealth management as an important profit growth point in the future.

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1 Introduction

In just four decades since China's reform and opening up, it has already gone through the path of many developed countries for hundreds of years, with GDP growing from 3678.7 billion yuan in 1978 to 114.37 trillion yuan in 2021, and more and more capital pouring into the capital market. The rapid growth of "shadow banking" has led to asset bubbles and high risk due to the high leverage. [1]. In response to the potential crisis, the "new regulations on asset management" emerged in April 2018, setting the classification of public and private products, prohibiting rigid exchange, prohibiting multi-layer nesting; limiting graded products; deleveraging and reducing channels; and strictly controlling "shadow banking", which is a series of measures proving that finance has entered a new cycle of strong regulation and deleveraging [2]. In this context, commercial banks and trusts, which used to be the common choice for residents, will be affected. In the case of commercial banks, firstly, net-worth management will be a huge challenge for them. Capital-protected wealth management products, risk-free and high interest rate products unique to banks will leave the stage of history; non-capital-protected products will also face net-worth transformation; different products will face yield disparity; and investors' subscription and redemption behaviours will become more frequent. The second is the examination of investment research, asset operation, and sales capabilities. In the past, commercial banks relied on non-standard projects with stable and high returns to be restricted, and in the future, the ability to invest in bonds, stocks, and other standardised assets will be more important, but banks are dwarfed in this respect compared to brokerages [3]. For the trust industry is also the same, one is also about breaking the rigid exchange, trust products need to net transformation, different projects before the yield and retraction gap will be increasingly large, which will break the confidence of investors for trust high yield. Secondly, the new regulations on fund raising will also have a significant impact on the trust industry. Originally, as long as the principal's entrusted funds exceeded three million, they would not be subject to the 50 headcount limit, but after the new regulations, projects with more than 200 people will be considered public offerings, which will limit the growth of capital trusts. Funds from trusts and commercial banks are likely to flow into the brokerage wealth management track [4]. Therefore, the study of the development and future of brokerage wealth management will become very meaningful.

This paper examines the future direction of wealth management with CICC Wealth Management as the subject. The results of the development of CICC Wealth Management to date are studied and analysed in depth. A comparative analysis is made by drawing on the history of wealth management development abroad, and possible future development paths and prospects are proposed to provide a theoretical basis for securities firms to continue to invest in wealth management tracks and for investors to engage in capital management mandates.

2 Wealth Management Overview

The term "wealth management" is often used in practice, but it is not uncommon for academics to define and clarify it rigorously [5]. Wealth management can be traced back to the 9th century Italian economist Pareto's law of twenty-eight, which states that eighty percent of the value comes from a factor of twenty percent, while eighty percent of the factor controls only twenty percent of the value. From a business point of view, twenty percent of key customers tend to create more than eighty percent of profits for commercial banks and trusts, which can be derived from wealth management that provides financial, credit, portfolio, and other financial services for a small number of medium and high-end customers, designing complete financial planning, managing customers' assets and liabilities and liquidity, thus providing profits for commercial banks and other financial institutions. In terms of the connotation of asset management business and wealth management business there is a clear difference, the former focus on the management and application of the current assets, so as to achieve value preservation and appreciation, while the latter takes into account the current and future assets, liabilities and many other factors. From the perspective of customer needs and long-term development to maintain the accumulation of wealth so as to achieve the purpose of preservation and appreciation. That is, asset management is the narrow sense of wealth management. From the asset allocation theory and life cycle theory as the theoretical basis of the wealth management business and based on the real situation, we can see that under the current wealth scale continues to grow, regulation gradually liberalized, and other favorable conditions, the wealth management market has a broad prospect of development [6]. Wealth management in China is still in its initial stage of development. The wealthy class is gradually awakening to the awareness of wealth management, which will create a huge space for wealth management businesses, and the asset allocation methods in wealth management businesses will become more diversified in the future [7].

3 Current situation and problems of securities companies

Securities firms are at an important juncture in developing their wealth management business and should reform their overall profitability model in a timely manner. One reason is that securities brokerage business has always been the most important source of profit for brokerage firms. However, the commission rate of the securities brokerage business has continued to decline significantly; the profitability of the brokerage business has been decreasing. [8]. In 2013, the average commission rate of the securities industry was 0.079%, basically the same as in 2012. In 2014, the figure was 0.067%; In 2015, the figure was 0.053%; in the first half of 2016, the figure had dropped to 0.0439%. In three and a half years, the commission rate has fallen by 44.42%. Therefore, the wealth management business is an important direction for reform and transformation of securities companies and is an important way to break through the current operating dilemma. Compared with foreign countries, domestic securities companies currently have a thin foundation in wealth management and a simple product structure. In the investment banking business, the development of China's securities companies is biased towards stock and bond underwriting, while the progress in the financial advisory business is not satisfactory; in addition to policies and other external factors, China's securities companies also have a large gap with developed countries in the asset management business [9]. In addition, in terms of the securities brokerage business, the business level of China's securities companies is relatively low, and the main source of profit is only the commission. In general, there are still obvious differences between the business of securities companies in China and those in developed foreign markets, so the foundation for wealth management businesses is relatively weak. In addition, the emphasis on client segment differentiation in developed foreign financial markets has led to financial innovation and a more diversified wealth management product mix. In terms of product design, foreign wealth management institutions tend to favour their own product channels, such as loans and cash management, for the sake of maintaining client relationships, while mutual funds are favoured by wealth management institutions due to their higher transparency and better information disclosure systems, making them the most open wealth management products. In the first half of 2016, the average commission rate in the securities industry was 0.0439%, down 20.60 per cent year-on-year, and the traditional business of securities companies was in a slump, which could hardly cover their operating costs. In addition, the homogenization of wealth management products under the wealth management business is serious, and the product structure is not innovative enough, with little differentiation among products, which limits consumers' choice. In addition, most securities companies target high net-worth clients in this business, and the structure is relatively homogeneous. At present, China's HNWI population is large and can bring high business income to securities companies, but the total asset size of individual investors cannot be ignored, and the wealth management needs of middle and low-end investors are not given much attention.

However, with the new asset regulations in 2018, commercial banks and trust institutions, which take the largest share of the wealth management business, have suffered a Waterloo, and securities companies have learnt from their mistakes and manage to improve, enjoying unprecedented development in the wealth management business. According to a report by the First Financial Daily on April 6, 2022, in recent years, along with the transformation of brokerage businesses, the wealth management business has become a new track in the securities industry, with leading brokerage firms focusing their efforts. In 2021, wealth management businesses of Huatai Securities, CITIC Securities, and CICC have made progress, and the contribution of this business to the total revenue of some brokerage firms has continued to increase. For the whole of last year, Huatai Securities' wealth management business generated revenue of 16.287 billion yuan, an increase of 30.52% year-on-year, accounting for more than 40% of revenue and an increase of 4.66 percentage points in gross margin. The number of wealth management clients of CITIC Securities and CICC expanded. Data from the annual report showed that by the end of last year, the number of CICC's wealth management clients reached 4,535,100, an increase of 22.9% over the previous year, including 34,900 high net worth individual clients, an increase of 36.2% over the previous year; CITIC Securities had a cumulative total of over 12 million clients, with a combined client asset size of RMB11 trillion under custody, an increase of 29% over the end of 2020. The number of clients of CITIC Securities exceeded 12 million, with a total asset size of RMB11 trillion under custody, up 29% from the end of 2020 [10]. All of the above figures show that brokerages have made a breakthrough in the wealth management track, which has become a new profit growth point. In this article, we will take CICC Wealth Management as an example to analyse how brokerage firms have taken the opportunity to broaden their wealth management track after the new asset management regulations and explore their possible future growth direction.

4 CICC Wealth Management in brief

4.1 Where CICC Wealth Management comes from

China International Capital Corporation Limited (CICC, 601995.SH, 3908.HK) is the first Sino-foreign joint venture investment bank in China. By pioneering the adoption of international best practices and deep expertise, it has completed numerous pioneering transactions and is deeply involved in China's economic reform and development. With its in-depth expertise in economics, industry, laws and regulations, and excellent client service, CICC has been awarded "Best Investment Bank of the Year in Asia", "Best Investment Bank in China", "Best Sales and Service Team" and "Most Influential Investment Bank" by both domestic and international media. CICC has been awarded "Best Investment Bank of the Year in Asia", "Best Investment Bank in China", "Best Sales and Service Team", "Most Influential Research Institution" and "Best Corporate Social Responsibility". CICC Wealth Management is a pioneer in China's wealth management industry, comprising "CICC Wealth Management apartment", which was first established in 2007, and "China Investment Securities", which was launched in 2005. In July 2021, CICC officially announced the transfer of its wealth management division to CICC Wealth Management and the transfer of its domestic clients and their contracts to CICC Wealth Management as a subsidiary to focus on the wealth management business. CICC Wealth Management is committed to helping clients develop wealth plans that serve their life goals and providing professional investment solutions for them. Based on the long-term asset allocation concept and more than 10 years of in-depth research in the product market, CICC Wealth Management has established a set of international standard multi-level buy-side investment advisory service systems, providing clients with "China 50", "Micro 50", "FOF products", "FOF products" and "FOF products", covering the refined wealth management needs of the general public, affluent clients and high net-worth individuals. By the end of 2021, the asset holdings of CICC Wealth Management's buy-side investment advisors will be nearly RMB 80 billion.

4.2 CICC Wealth Management Business

CICCWM's main business focuses on the following areas: Firstly, it provides excellent asset allocation services tailored to the different needs of clients, offering excellent allocation solutions for clients of different asset classes that are tailored to their own circumstances. For high-end affluent clients, the China 50, with a threshold of RMB10 million, will be dynamically allocated based on CICC's preferred China 50 Plan product research pool. The fund managers in the China 50 Plan are the best principals available to CICC, with a wide range of experience and a rotational approach. For the affluent middle class, there is also the Micro 50 Wealth Allocation Plan with a threshold of RMB2 million, which will be based on the underlying China 50 product research pool for personalised solutions. The Micro50 will be personalised based on the underlying product research pool of the China 50, allowing clients to choose the allocation that best suits their needs across a range of risk appetites. For the general public, there is also an "A+ Fund Advisor" service with a threshold of RMB 1,000, where an investment planning advisor will accompany and guide clients and give them the most professional advice on investment and financial management. The second is the rich financial derivatives trading, such as index increase, snowball structure, gold stock enhancement and other rich products. Based on the all-dimensional and all-field wealth research system provided by the strong CICC Research Department, each client can find the most suitable financial derivatives for his or her investment research needs and risk appetite. The richness of the product range is comparable to that of established foreign wealth management firms and is based on CICC's strong platform resources. The third is naturally the broker's traditional business, stock trading, pledge repo, options financing and financing, PB business, etc. The new CICC Wealth Management App, which relies on digital reform, also brings customers a better investment experience. Using digital transformation to promote the development of traditional businesses has been CICCWM's attempt to continue to follow up, which is also a necessary process to enable the sustainable development of traditional businesses.

5 CICC Wealth Management's future development path and shortcomings

For brokerage firms like CICC Wealth Management, they should seize the weak period of commercial banks and trust institutions after the new capital management regulations and strive to reform and innovate to develop their wealth management division as a new profit-driven growth point.

5.1 Professionalism of personnel needs to be improved

CICC Wealth Management should improve the overall professionalism of its wealth management department. In the traditional business model, most securities companies have a talent team concentrated in marketing positions and lack composite talents with multi-faceted capabilities. For high net worth individuals, they have high requirements for the quality of services, and the construction of high-quality composite talents is crucial to gaining customers' trust, creating a good reputation and expanding the scope of business [9]. In addition, the professionalism of wealth management talents also reflects moral quality and value orientation, which can be cultivated through the establishment of an excellent company culture. This helps employees cultivate a good relationship of trust with clients and build a more sustainable service system. This can be learnt from Samsung Securities, which has maintained a highly compatible organisational and business structure while emphasising a low layoff rate and requiring professionalism from its staff. The company maintains relatively stringent hiring standards in the recruitment process, emphasising staff identification with the company's culture and using multiple rounds of interviews to screen employees, with staff quality well above the industry average. Samsung has also made appropriate improvements to its performance appraisal by incorporating customer service quality evaluation indicators to make it more in line with the wealth management model. CICC Wealth Management should learn from the experience of Samsung Securities in this regard and look for highly educated, ethical and qualified personnel, provide positive performance incentives, and incorporate customer satisfaction into performance appraisals, which will help to improve the general public's solidified impression of the wealth management industry as being too "salesy".

5.2 Corporate expertise needs to be improved

From the company's own professionalism, maintaining excellent research and development capabilities and promoting digital reform are what CICC Wealth Management needs to work on. As mentioned earlier, the new regulations on asset management have restricted the non-standard projects that commercial banks used to rely on for stable and high returns, and the ability to invest in bonds, stocks and other standardised assets will be more important in the future. CICC Wealth Management should seize the turbulent period when the new regulations on asset management abolish rigid exchange and establish net worth, continue to develop its strengths in investment research, launch more excellent financial products and services, develop high net-worth clients and expand its leading edge. In this regard, CICC Wealth Management can follow the example of Merrill Lynch, whose organisational structure is in fact client-centric. Financial advisors can readily mobilise the company's research results, business information, and product resources to form cross-departmental project teams, making full use of the excellent research and development capabilities of its Merrill Lynch Global Research Institute, putting them into product production and risk justification, and truly establishing a client-centric operating system [9]. Based on my own internship experience at CICC Wealth Management,with the backing of the CICC Research Institute, has been able to achieve a certain degree of flexibility, i.e., wealth advisors who interface with clients have access to monthly R&D reports, daily morning meeting summaries, regular roadshows of large buy-side fund companies, etc., and use this intelligence to help clients better allocate and manage assets. CICCWM needs to continue on this path to improve the flexibility and efficiency of its organisational structure while enhancing its investment research capabilities.

5.3 Digital transformation requires continued follow-up

For digital transformation, there is no foreign securities firm to refer to, and foreign securities firms are in the process of figuring out this path. In March 2018, JPMorgan

Chase announced a partnership with Amazon that allows customers to use Alexa to access JPMorgan Chase's research reports and also monitor their accounts using Alexa. Their partnership treaty on credit cards, which they had signed previously, was renewed again in April 2022. This shows that cooperation with Internet majors may be a direction for the digital transformation of securities firms. The excellent R&D capabilities of securities firms paired with the superior technological capabilities of Internet majors may allow both parties to join forces and benefit from each other [11]. With the digitalization of CICCWM already in place, their clients can already oversee their accounts, view Centrin's industry analysis, and buy and sell stocks and bonds right from the app, while the weekly Centrin Review public issue also presents excellent tweets for clients' reference. These are just some of the positive changes ahead of the wave of digital reform in the securities future, and there will be even more exciting combined outputs in the future, which will be a process that CICCWM will need to persevere with and put considerable effort and financial resources into.

6 Conclusion

The paper concludes that commercial banks and trusts, once the dominant players in the wealth management track, will be in the throes of reform under the new capital management regulations to lift rigid exchange, implement net worth management, and reduce leverage. Good securities firms should reform their traditional brokerage business, vigorously develop the wealth management track, improve the professionalism of their staff and the firm, continue to leverage their excellent investment research capabilities, pair them with digital reforms, and continue to drive the development of the wealth management division as a strategic focus and important profit growth point for the future. In the process of reform, there will be fierce competition between securities firms, and in the early stages, when there is no significant difference between their products, the fierce competition will affect profitability and the development of wealth management businesses, which must limit the rate of reform of securities firms. In addition, the lack of a numerical advantage of securities firms over commercial banks in terms of grassroots sales offices means that, for the average investor, they will still prefer commercial banks that have been operating in this area for a long time. A few securities firms such as CICC Wealth can continue to develop at the grassroots level by using the China Investment Securities sales offices they acquired in earlier years, and opening up the information exchange between local sales offices and the CICC Research Institute can give the grassroots offices the advantage of being more product-rich and advanced than commercial banks. In addition, the general investors' bad impression of the brutal development of wealth management in the early years will also become a stumbling block for the development of wealth management business of brokerage firms. How to carry out brand building and how to change the solid impression that wealth management is "too marketing-heavy" are also something that brokerage firms need to consider. For outstanding brokerage firms that address all the above limitations while resolutely promoting reform and development, the future of wealth management business will be so bright against the background of the rising number of affluent people in China year by year, the continuous and stable development of China's economy, and the increasingly stable and mature financial policies.

This paper does not take into account the current downward trend in the world economy. At a time when most of the world's major economies are mired in inflation, perhaps high net worth clients will be more cautious in their investment. Therefore, these clients have doubts about the wealth management business of brokerage firms. Also, the research and development capabilities of commercial banks and trusts may have been underestimated. Commercial banks and trust companies may realise the importance of their R&D capabilities and invest more in their research departments, which result in the advantages of brokerage firms' R&D capabilities being caught up or even surpassed. To investigate the future of brokerage wealth management further, the author will collect sufficient data from commercial banks,trusts and brokerage firms that help bulid adequate models. By analysing models, more logical explanation will be made and that should contirbute to the final conclusion about the future paths of brokerage wealth management.

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