Analysis of Chinese Household Financial Assets

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Abstract

With the rapid growth of the economy, more and more people in China are attaching great importance to asset allocation. In order to make better decisions while investing, people pay more attention to the influencing factors of asset allocation. Recently, a lot of research has been written about asset allocation. Few papers discussed how income level influences the situation of asset allocation. Therefore, the goal of this paper is to explain and analyze the asset allocation of different income groups in China by processing data and comparing. We found that low-risk deposits account for far more than other types of financial products, while high-risk stocks and other investments account for a low proportion, and financial assets lack diversified allocation. Households in first-tier cities with high GDP and developed economies are relatively more balanced in the ratio of financial assets, while third-tier cities tend to prefer financial products with low risk. The paper will help families in China gain more knowledge about asset allocation so that people will make better choices in practice.

Keywords: asset allocation; income level; financial assets; venture capital; housing loans

1. INTRODUCTION

Asset allocation refers to an investment strategy in which individuals divide their portfolios into different asset classes in order to minimize the investment risks. Asset allocation is generally considered risky. In order to help people, avoid various kinds of risks, economists have given a number of suggestions. Gong [1] stated that venture capitalists can participate in related management and go public in time when the time is ripe. However, venture capitalists are faced with technical risks, market risks, operational risks, and so on in each stage, so the capitalists must identify and prevent the risks in time or they may lose all their money.

However, how to allocate their assets depends on people themselves. In fact, there are many factors that can have a influence on people's decisions on asset allocation, while income level, urban hierarchy and educational level are of great importance among them.

A number of researchers studied on the relevant factors that may have an impact on allocating assets. Some of them mentioned that the level of household wealth has a positive correlation with its participation in financial asset investment. To be more specific, there is an inverted u-shaped non-linear relationship between the age of household head and household participation in financial asset investment. However, the household registration has no significant impact on participation in financial assets. Besides, a significant negative correlation can be found between household size and household investment in financial assets [2]. The researchers usually discuss the topic on certain factors like age, health condition, marital status and household size.

But there are few studies focusing on the factor's urban hierarchy, income level and educational level and having further thinking. As a result, more research is needed to dig out the exact influence they have on asset allocation.

This paper focus on the financial assets in China. Necessary calculation will be done to show the connection between the factors, as well as to show the characteristics of the trend clearly.

The structure of the household asset allocation in China is simple. Moreover, growing at a low rate is considered as a long-run trend. As this paper focus on the

current situation of the asset allocation in China, we will base on the features of Chinese family structure and manifestations of the factors to study on the topic particularly. This paper will help families in China know more about asset allocation, and that people can analyze situations more accurately and make better decisions while investing.

2. RELATED WORKS

In recent years, there has been an increasing amount of literature on asset allocation. At present, some papers analyze the threshold effect of household wealth level on asset allocation. Wu and Li [3]who published a paper on it, eventually drew three conclusions. They believed that wealth levels for different kinds of financial asset allocation in different areas of the family have a significant threshold effect. Besides, the marginal impact of rising wealth levels on household risk asset allocation shows an upward trend and the middle-aged and young groups with high wealth levels, education levels, and higher risk preference tend to invest in risk assets.

Moreover, some other researchers focus on the impact effect and heterogeneity between household income per capita and household financial asset allocation. Shu, Wu, and Tang [4] concluded that when the household income per capita is at a low level, it has an obvious promoting effect on the proportion of time deposits, and an obvious inhibiting effect on the proportion of total risk assets and stock assets. When household income the per capita is at a high level, the per capita household income has an obvious restraining effect on the proportion of time deposits, and an obvious promoting effect on the proportion of total risk assets and of stock assets. Besides, researchers also discussed this topic further. Zhang [5] published a paper studying on the influence of household income on the allocation of household financial assets in China. He added factors whether the family uses computers and whether they have enough knowledge about the Internet.

In view of the other factors of the topic, researchers used models to help organize. Cheng [2] used the Probit Model and the OLS model to measure the household wealth level by household net assets and explored its influence on household investment and participation in financial assets, allocation proportion, and investment income.

Considering the difference in asset allocation between the people from urban and rural areas, Zhang [6] showed that the amount of Chinese household financial assets is on the rise and urban residents' risky financial assets grew faster, combined with statistical methods. Furthermore, the impact of housing holding is also considerable. Increasing housing prices will lead to a rise in house owners' s wealth so that their confidence will grow as well. Yu and Cai [7] empirically analyzed the impact of Chinese household real estate holdings on household financial asset allocation with the help of the Logit Model and Tobit Model.

At present, there are some studies on the influencing factors of asset allocation, but few studies have pointed out the influence of different city levels, income groups, and educational groups. On the other hand, they provided one of the important indicators to judge what the asset allocation of a person is like, which is necessary for further research. This paper explores the influence of the factors on the asset allocation of families in China and hopes to provide some guiding advice for Chinese families on allocating their assets.

3. METHODS

We collect our data on China Household Finance Survey(CHFS) in 2019. CHFS is a sampling survey which uses questionnaires to collect data from people in China about their financial current situation like the level of asset allocation and other financial elements. CHFS aims to gather information about the financial level of Chinese households and individuals, and to better know about the current situation of the economic standard and financial environment in China. Therefore, this will help firms, families, and individuals to make more rational decisions, as well as to make more profit in business or asset allocation.

To make sure that the data are as accurate as possible, we choose to analyze the data of households instead of individuals. Asset allocation includes financial assets and non-financial assets. Household financial assets include non-risky financial assets and risky financial assets.

This paper mainly chooses urban hierarchy,income level and educational level as the variables. The total financial asset in this paper includes deposit, stocks, funds, and bonds.

In 2019, China's household financial asset allocation accounted for 12.8%, which was a relatively low level in the world. The proportion of fixed assets such as real estate exceeded 67%, which squeezed the stock and increment of household financial assets, inhibited the liquidity of household assets and was not conducive to the optimal allocation of household assets.

3.1 Urban hierarchy

The city hierarchy can be mainly divided into three groups, which are first-tier cities, second-tier cities, and the third-tier cities and below. We calculate the percentage of household financial assets of the three groups respectively.

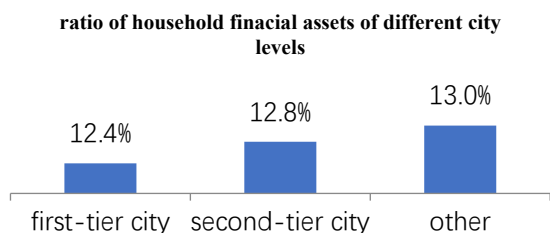**ratio of household finacial assets of different city levels**

Figure 1. Ratio of household financial assets of different city levels

As we can see, the ratio of household financial assets in first-tier cities was 12.4%, which was the lowest among the three groups. That of second-tier cities was 12.8%, 0.4% higher than the foregoing. The percentage of household financial assets in third-tier cities and the other was the highest among the three, which reached 13.0%.
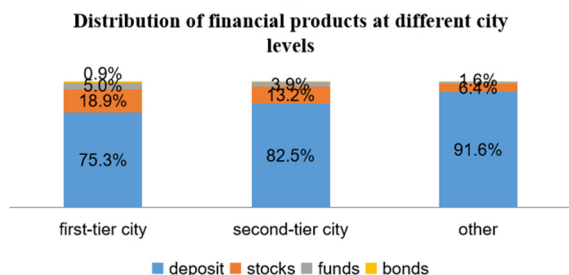
Distribution of financial products at different city levels

Figure 2. Distribution of financial products at different city levels

In general, the deposit took up most of the household financial assets in all groups of different city levels, with the distribution of 75.3%, 82.5%, and 91.6% respectively. For households in first-tier cities, the stocks took up 18.9% of the financial assets, while the funds took up 5.0% and bonds took up 0.9%. In comparison, the ratio of stocks was 13.2% and 6.4% of financial assets in second-tier cities and the other. The ratio of funds was 3.9% and 1.6% each.

3.2 Income levels

Different income levels can have an impact on household financial assets. We divide the income levels into nine groups.

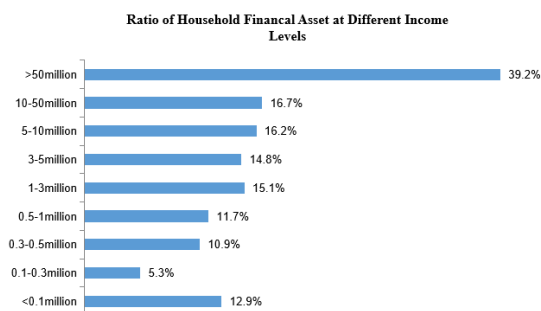**Ratio of Household Finacal Asset at Different Income Levels**

Figure 3. Ratio of household financial assets at different income levels

According to the table, the ratio of household financial assets of families with an income between 0.1 to 0.3 million was 5.3%, which was the lowest among the nine groups. In comparison, that of people with income lower than 0.1 million was 12.9%. The percentage of household financial assets of people whose income levels were between 0.3 million and 50 million didn't differ much. The trend of it was rising stably, while the ratio of household financial assets at the income level of 0.3-0.5 million was 10.9% and that of 10-50 million was 16.7%. The ratio if those whose income was over 50 million was 39.2%, which was the highest among the nine groups.

Distribution of financial products at different income levels
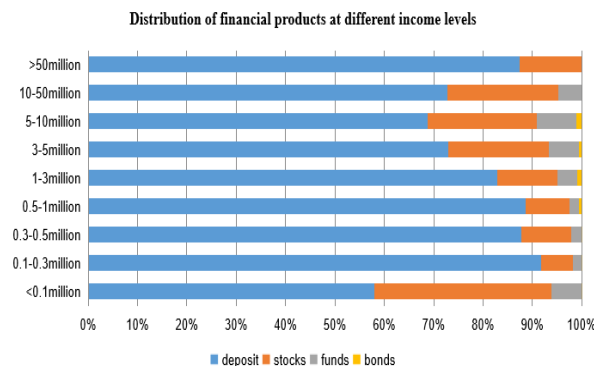

Figure 4. Distribution of financial products at different income levels

From the graph, we can see that in general, the deposit took up most of the distribution of financial products for people at income level levels, while the ratio of less than 0.1 million was below 60% and was the lowest among the nine groups. The percentage of deposits was about 70% to 90% of the families at other income levels. The ratio of stocks was the largest of those with income less than 0.1 million, which was about 35%. The ratio of stocks reached a peak of more than 20% at the income level of 10-50 million. In other groups, the ratio of stocks rose as the income increased, but experienced a slight fall at the level of over 50 million. The ratio of funds was still the highest at the income level of below 0.1 million, which reached more than 15%. The distribution of it was about 2% to 10% of those with income between 0.1 million and 50 million. That of families with income over 50 million was nearly zero. The distribution of bonds can only be clearly seen in the groups of income between 0.5 million and 10 million. The ratio of bonds at the other income levels is almost zero.

3.3 Educational levels

In this paper, to show the educational level, we use "1" to represent those who have never been to school, "2" for primary school, "3" for junior high school, "4" for senior high school, "5" for technical secondary school/professional high school, "6" for junior college/higher vocational school, "7" for undergraduate, "8" for master's degree and "9" for the doctoral degree.
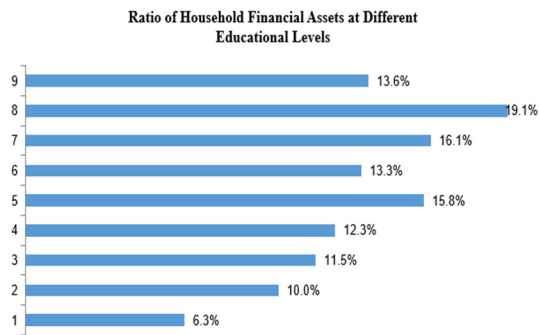
Figure 5. Ratio of household financial assets at different educational levels

We can know from the figure that the ratio of household financial assets of people who had got a master's degree was the largest among the nine groups, which was 19.1%. The following are the proportion of people who are undergraduate and the proportion of those who had only been to technical secondary school or professional high school, which taking up 16.1% and 15.8% respectively. By contrast, there is no huge difference for the ratios of household financial assets of people who had been to junior high school, senior high school, junior college, or higher vocational school, or those who had got a doctoral degree. And each of them takes up 11.5%, 12.3%, 13.3%, and 13.6% respectively. The percentage of those people who only had been to primary school was 10.0%. That of those who had never been to school is 6.3%, the lowest among the nine.

4. DISCUSSION

In 2019, China's household financial asset allocation accounted for 12.8%, a relatively low level in the world. The proportion of fixed assets such as real estate exceeds 67%, which squeezes the stock and increment of household financial assets, inhibits the liquidity of household assets, and is not conducive to the optimal allocation of household assets. With the continuous development of the financial industry and the innovation of financial asset allocation, how to efficiently allocate has become drawn the attention of Chinese families. The government has also been trying to optimize the asset allocation structure in China and increase household participation in financial markets. Our research aims to show the relationships between Chinese household financial assets and certain common factors that can have an influence on it so that we can give advice on how to help to improve the current situation of the financial market in China.

In terms of the influencing factor at the city level, the financial assets of households in third-tier cities and below accounted for a slightly higher proportion than the others at 13%. Households in first-tier cities tend to invest in fixed assets such as real estate, while the proportion of financial assets is relatively low. According to the

research done by Yang[8], a higher level of regional economy will inevitably promote the economic level of households and thus promote household investment. But in fact, the third-tier cities and below which were the least developed among the three groups, take up the largest proportion. If the financial industry in the region develops fast and well, the ratio of household financial assets will also be high. Besides, families in third-tier cities and below prefer to invest in stable financial products such as deposits, while families in first-tier cities prefer to invest in a combination of deposits, stocks, and other financial products.

From the perspective of influencing factors of family income, the proportion of financial assets is positively related to family income. The proportion of financial assets of households with an annual income of more than a 0.3million yuan rose significantly. Sun[9]concluded that in the current social environment, low family income will directly affect people's life. If people cannot guarantee the basic quality of life, then there will be no family financial asset investment behavior naturally. However, the ratio of household financial assets of those whose income is less than 0.1millin still takes up 12.9%, which is even higher than that of three other groups. Families with an annual income of more than 0.3million yuan tend to invest more in high-risk products such as stocks, while those with an annual income of fewer than 0.3million yuan tend to invest more conservatively and deposit products account for a higher proportion.

From the perspective of other factors such as the educational level of family members, people who are undergraduate or have a higher bachelor's degree or above have a higher recognition of financial products, and their financial assets account for a significantly higher proportion. People who are at high educational levels may know more about financial strategies, so they have more confidence to make better financial asset allocation decisions. Therefore, the ratios of those groups are higher than the others.

On the whole, the composition of Chinese household financial assets presents the characteristics of imbalance. Among the four key financial assets, deposits, including demand and time deposits, stocks, funds, and bonds, deposits of Chinese households are still the main investment category, accounting for 81% of the four financial assets. Risky stocks accounted for 14%. And 91% of families with financial assets choose low-risk deposit products. Less than 10 percent of households opt for riskier equity products.

5. CONCLUSION

In this paper, we study the relationships between Chinese household asset allocation and urban hierarchy, income level, and educational level, by using the data from CHFS.

In this paper, we process the CHFS data and calculate the ratios of the financial asset allocation of different groups according to different influencing factors for comparison. In this way, we can figure out to what extent these factors can have an influence on financial asset allocation and how they affect it. By sorting the data, we've got several conclusions. At present, the ratio of financial assets of Chinese households is low. In terms of the composition of financial assets, there is an obvious imbalance. Low-risk deposits account for far more than other types of financial products, while high-risk stocks and other investments account for a low proportion, and financial assets lack diversified allocation. Households in first-tier cities with high GDP and developed economies are relatively more balanced in the ratio of financial assets, while third-tier cities tend to prefer financial products with low risk.

In view of the problem that some families do not allocate their assets efficiently, we can then give suggestions about how to improve the ability of households to withstand investment risks, and optimize the structure of social resources allocation. Chinese households need to broaden investment channels and diversify household assets. For Chinese families, in addition to their daily deposit needs, they need to realize the strategy of sharing security, liquidity, and profitability of family assets and carry out diversified asset allocation. A diversified asset allocation can help investors spread risk and avoid the crisis of a sharp decline in wealth if a big risk occurs. At the same time, the diversified asset allocation can make investors maximize the realization of wealth appreciation. Chinese households can set the allocation ratio between sound assets and investment assets according to their risk appetite. Invest as much as you can in areas you are familiar with, make sure the risk is manageable, and invest with the maximum acceptable loss.

In the era of technological development, we hope that there will be more studies on the relationship between financial asset allocation and new technological means such as multimedia in the future.

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