

DISCUSSION OF “IN THE SHADOW OF BANKS: WEALTH MANAGEMENT PRODUCTS AND ISSUING BANKS’ RISK IN CHINA”

ZHIGUO HE (何治国)

**UNIVERSITY OF CHICAGO, BOOTH SCHOOL OF
BUSINESS, AND NBER**



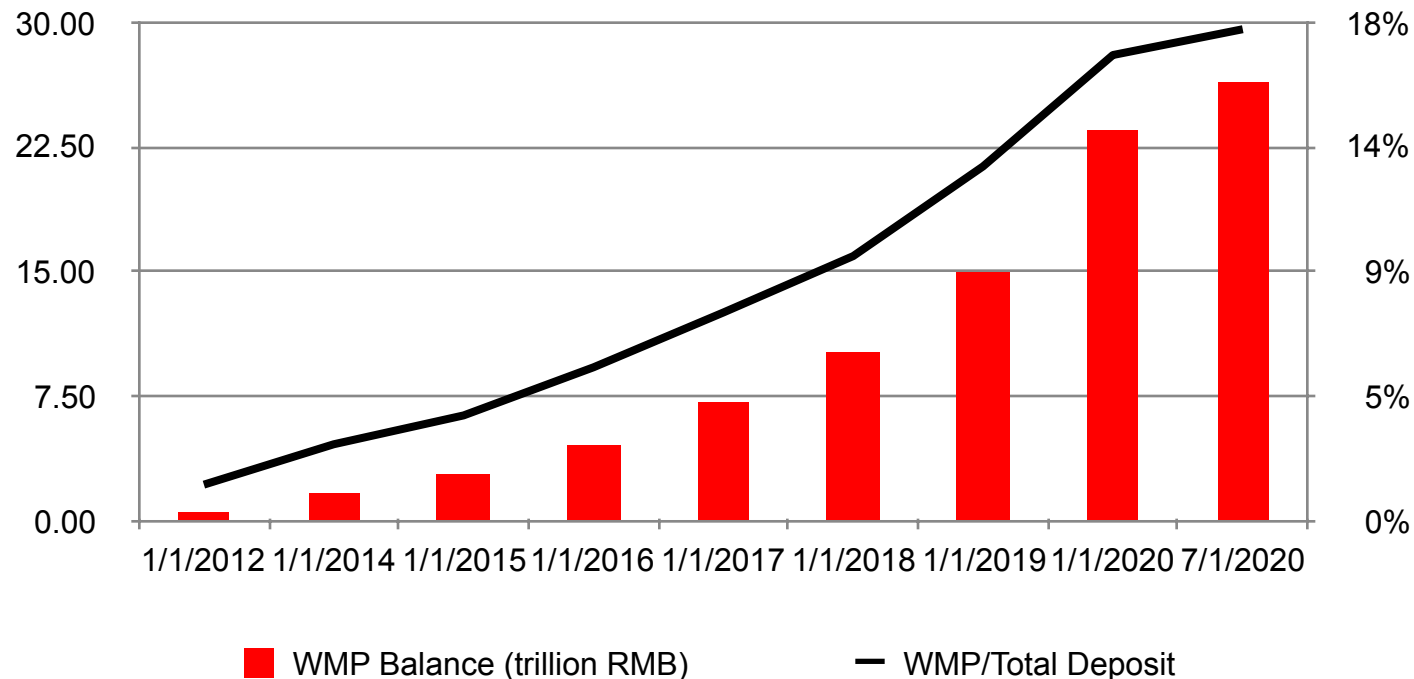
The University of Chicago Booth School of Business

WEALTH MANAGEMENT PRODUCT (理财产品)

❖ AN GROWINGLY IMPORTANT PART OF ECO-SYSTEM OF CHINESE FINANCIAL MARKET

- ❖ Chinese version of privately manufactured safe asset

WMP Balance and Percentage to Total Deposits



QUESTION 1

❖ **WHAT COULD CAUSE THE RISE OF WMP**

- ❖ 2009 Stimulus Plan plus competition b/w BIG4 and SMB
- ❖ SMB in a disadvantage in getting regular deposit to meet Loan-to-deposit ratio regulation; so offer a better rate to attract WMP
- ❖ Hachem and Song (2016) emphasize the change of LDR regulation and competition

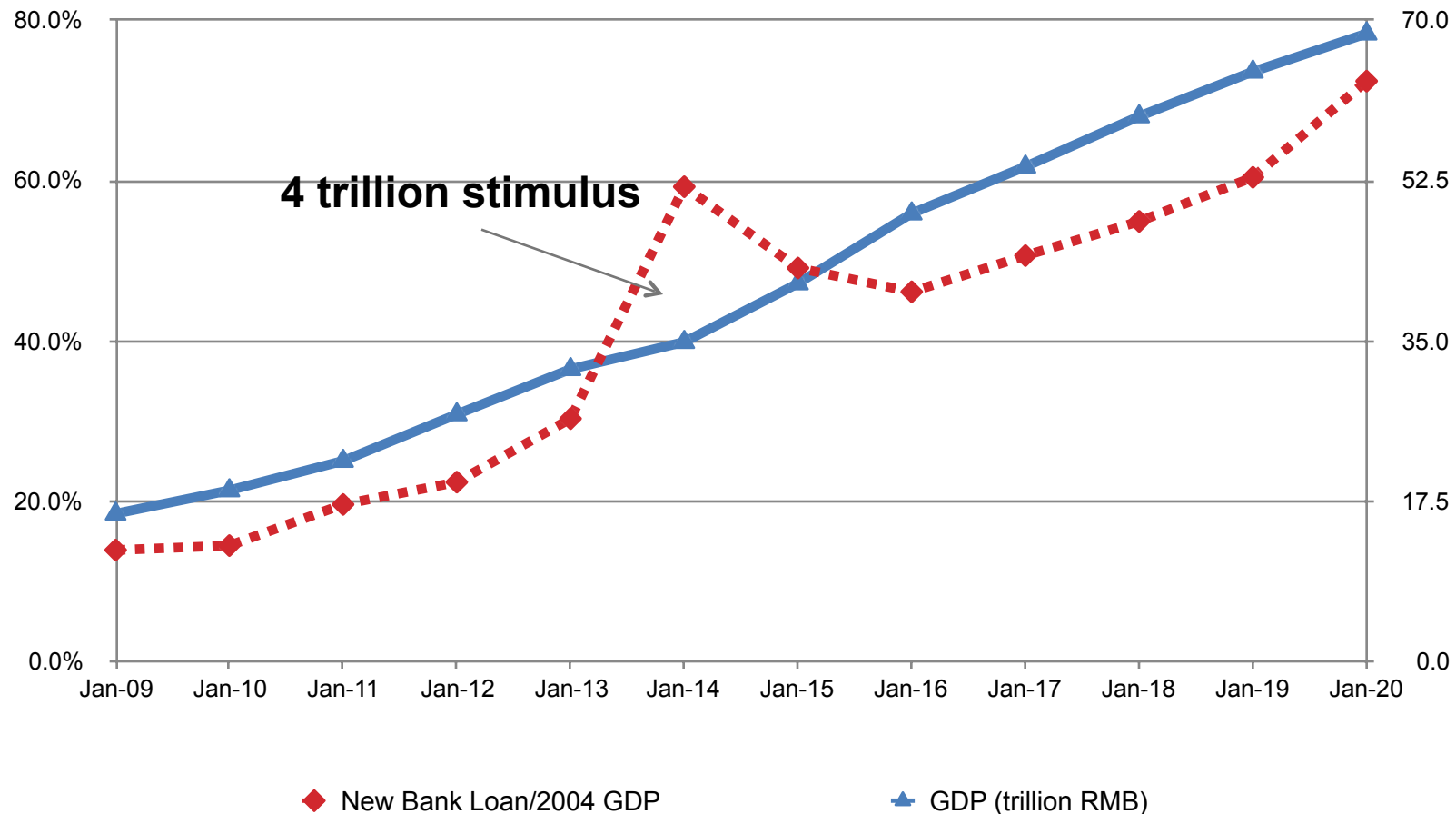
❖ **INTERESTING VARIATION OF BOC (MR. XIAO EFFECT)**

- ❖ BOC was extremely aggressive in following Beijing's order
- ❖ SMBs who happened to compete with BOC had to fight harder.....



2009 STIMULUS PLAN AND BANK CREDIT EXPANSION

New Bank Loan as a Percentage of 2004 GDP



MR XIAO'S EFFECT

❖ MEASURE SMB BANKS' HETEROGENEOUS EXPOSURES TO MR XIAO'S SHOP

- ❖ City-level information of # of branches for each bank. Clever
- ❖ Cross-sectional prediction: the higher the BOC exposure, the tighter the LDR and the greater the WMP issuance
- ❖ And, only works after 2009

❖ IDEALLY, WE SHOULD INCLUDE BANK FIXED EFFECT

- ❖ Unfortunately, exposure is quite persistent (understandable)

❖ CONTROLS ARE NEEDED.....

- ❖ Right now only includes bank type as controls (local or joint-equity)

LOAN-TO-DEPOSIT RATIO

Year	07-14	07-08	09-10	11-12	13-14
Dep Var: LDR	(1)	(2)	(3)	(4)	(5)
BOC	2.379*** (3.700)	0.790 (0.774)	1.177 (1.226)	3.274** (2.720)	5.300** (2.209)
ICBC	0.276 (0.404)	0.336 (0.707)	-0.566 (-0.440)	0.970 (0.580)	3.505 (1.614)
CCB	-1.698* (-1.782)	-1.179** (-2.466)	-0.411 (-0.300)	-3.475 (-1.629)	-5.783** (-2.395)
ABC	-0.395 (-0.637)	0.394 (1.074)	-0.697 (-0.802)	-0.823 (-0.504)	-2.120 (-1.222)
quarter fixed effect	√	√	√	√	√
bank type fixed effect	√	√	√	√	√

❖ **CCB HAS A SLIGHTLY LARGER CROSS-SECTIONAL VARIATION THAN BOC**

WMP ISSUANCE

Year	08	09-10	11-12	13-14
Dep Var: Issuance/Equity	(1)	(2)	(3)	(4)
BOC	6.061	7.246***	40.45*	146.4***
	(1.319)	(3.167)	(2.056)	(2.847)
ICBC	3.077	2.174	44.10**	54.60
	(0.948)	(1.167)	(2.242)	(0.855)
CCB	-6.079	-1.414	-52.97*	-93.99
	(-1.370)	(-0.480)	(-1.792)	(-1.248)
ABC	0.756	-3.797**	18.87	15.21
	(0.522)	(-2.314)	(1.295)	(0.347)

- ❖ **XIAO GOT PROMOTED AND LEFT BOC IN MARCH 2013**
- ❖ **MUTED EFFECT OF CHANGE OF WMP ISSUANCE 2013-2014?**

QUESTION 2

❖ WMP ON BANK'S RISK

❖ WINDOW DRESSING

- ❖ Issuing WMP right before the quarter
- ❖ Especially for principal-floating WMPs which are off-balance sheet. Mature before the quarter end, so deposit balance ↑

❖ ROLLOVER RISK IN INTERBANK MARKET

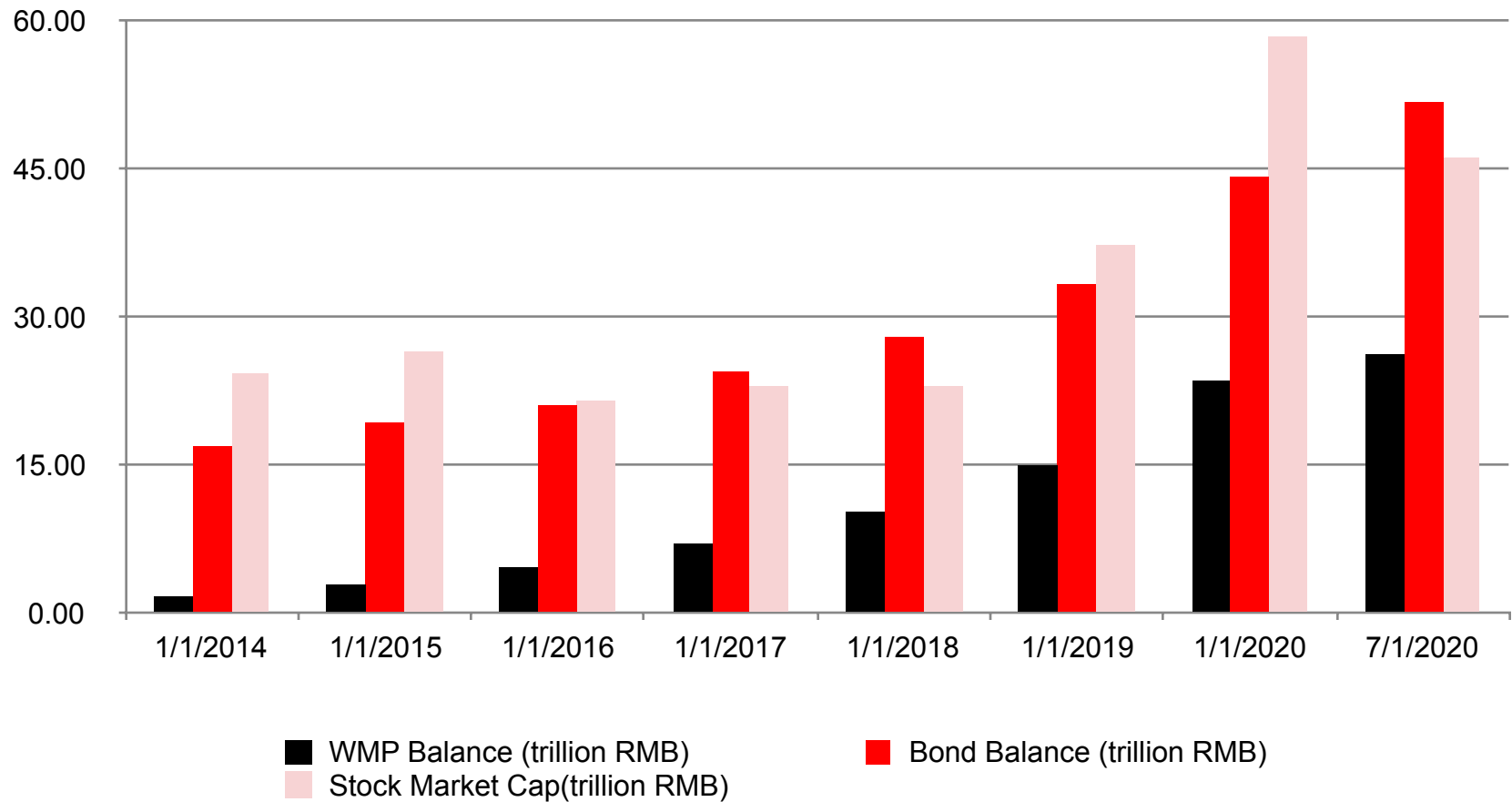
- ❖ The higher the BIG4 WMP due, the higher the bank's Shibor rate
- ❖ Bank-month level, stock ↓ if WMP due ↑, for the days with high Shibor (both level and shock)

❖ CLEAR CONNECTION WITH THE FIRST PART?

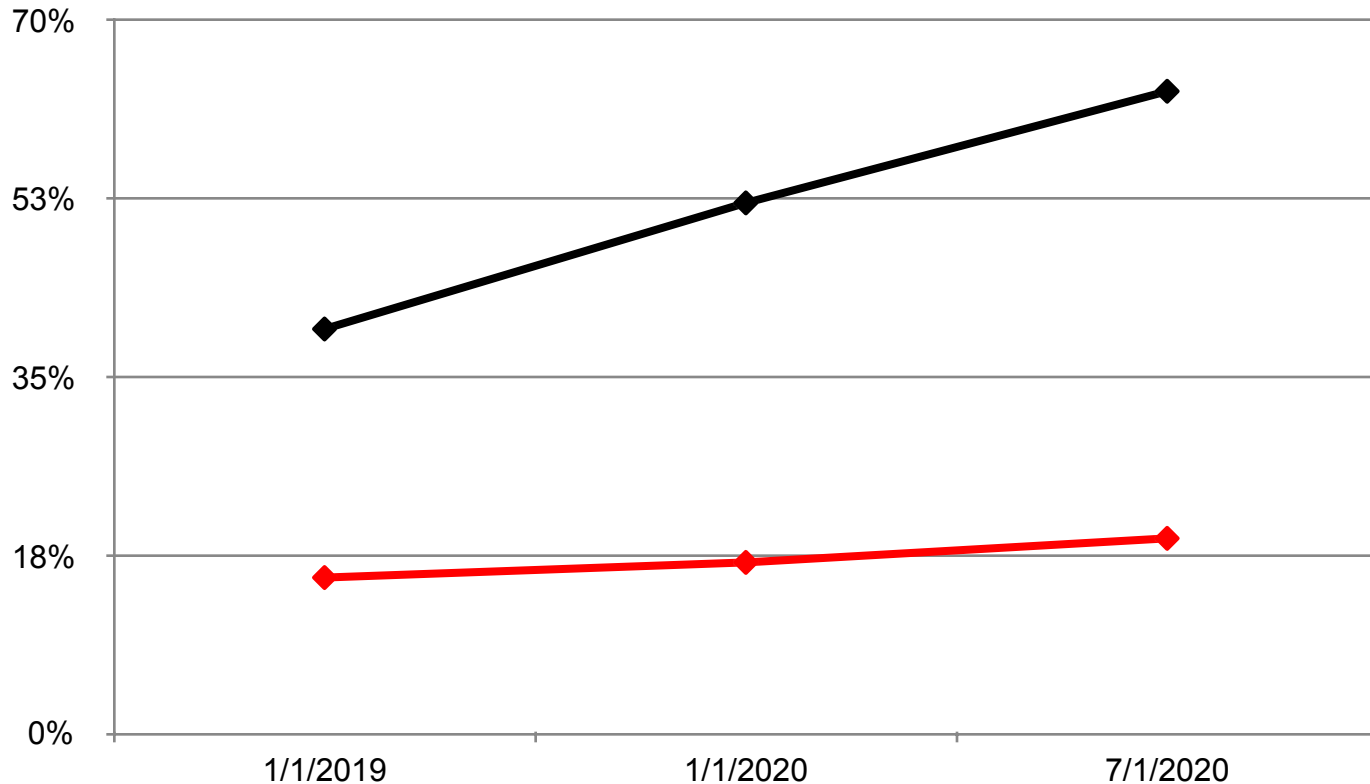
HUGE INTERBANK MARKET

- ❖ Interbank market bond includes credit bond and interest rate bond

WMP, Bond and Stock Market Cap



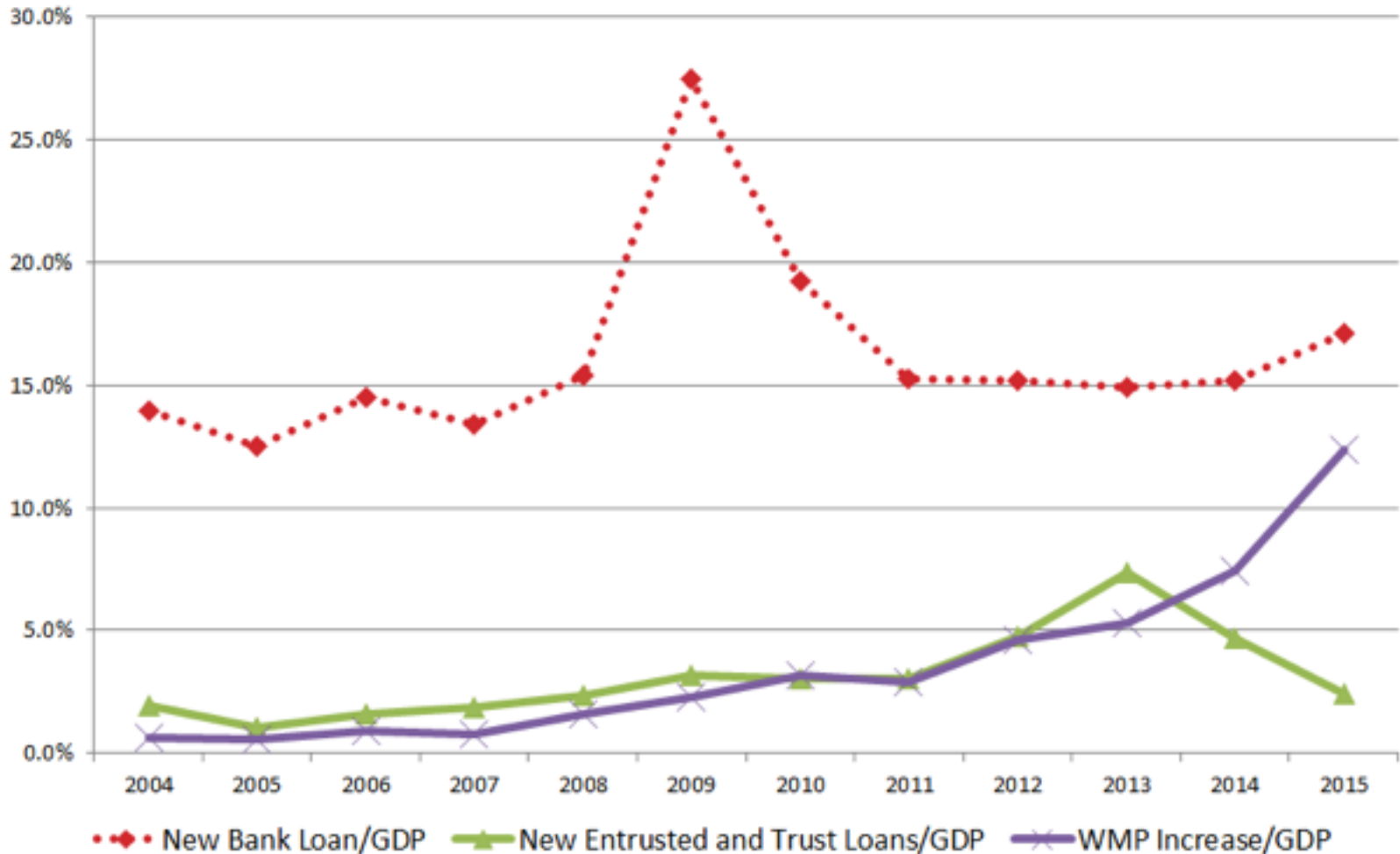
RISKY WMP INVESTMENT IN INTERBANK MARKET



- ◆ WMP in credit bond / interbank credit bond balance
- ◆ WMP in non-standard asset / interbank non-standard asset

WMP AND OTHER SHADOW BANKING ACTIVITIES

New Entrusted/Trust Loans and Increase in WMP



FINAL REMARKS

❖ 2009 STIMULUS PLAN HAS TREMENDOUS UNINTENDED CONSEQUENCES

- ❖ Interest rate liberalization, “let market be decisive”

❖ THE BARBARIAN GROWTH OF SHADOW BANKING IS AFTER 2012

- ❖ This paper: after 2012 regulators push banks to remove loans to off-balance sheet, so more WMP
- ❖ Chen, He, and Liu (2017): similar flavor, local government debt, cross-sectional evidence

❖ WITH SOPHISTICATED INTERBANK MARKET, WMP INVESTMENT IS MORE AND MORE COMPLICATED

- ❖ Chinese Bond market collapse in late 2016 is related to the fact WMP enters some repo transactions as junior claim (equity)
- ❖ These WMPs offer more than 5%, with 4% of 1-year Shibor
- ❖ Cross-sector regulation is urgent