Research on the Innovation of Local Asset Management Companies Development Path in China

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Abstract

China's economy is in the phase of "three-phases superimposed", and the GDP growth continues to decline, leading to the "double rise" of the amount of non-performing assets and the ratio of non-performing assets. Through the acquisition and disposal of non-performing assets, AMC (Asset Management Companies) defused the risks of financial institutions and maintained and promoted economic development. It is worthy of the name of "fire brigade" and "firewall". At present, the pattern of non-performing assets market has gradually developed from the original "Four Major AMC" oligopoly market to the diversified pattern of "5+2+AIC+N". AMC has gradually entered the market "perfect competition" state. In this paper, through literature analysis, comparative analysis, investigation, interview method and the method of combining qualitative analysis with quantitative analysis, the innovation of Chinese local AMC create differentiation development and optimization of path are proposed, complement and perfect the theory of innovation and development of AMC, for the development of Chinese local AMC practice to provide some valuable reference.

Keywords

Chinese local AMC; Development path; Innovative research

The Development Background of Local AMC

China's economic development is in the "three-phase superimposition", that is, the period of shifting growth rates, the painful period of structural adjustment, and the digestion period of the previous stimulus policies. The GDP growth rate will continue to decline, and the ratio of non-performing assets and the ratio of non-performing assets will show a "double rise." The balance of non-performing loans reached 2.41 trillion yuan in 2019. The scale of non-performing assets has spread rapidly, and regional financial risks have gradually emerged. However, the Four Major AMCs are temporarily unable to take into account and deal with regional

financial risks in a timely and safe manner, so local AMCs came into being.

In 2014, the China Banking Regulatory Commission announced the first batch of local AMCs in the country that can carry out the bulk acquisition of financial non-performing assets (Li, 2015). As of 2020, nearly 60 local AMCs that carry out non-performing asset businesses have been approved. With the approval of local AMCs, the rapid development of bank AMCs and non-licensed private non-performing AMCs, the current pattern of the non-performing asset market has gradually developed from the original "Four Major AMC" oligopoly market to the current "5+2+AIC" +N" diversified pattern. AMC has gradually entered a market-oriented "perfect competition" state.

Difficulties and Challenges Faced by Local AMC

In the context of deepening supply-side structural reform, local AMCs are playing an increasingly important role in preventing and resolving local financial risks, solving the difficulties of local enterprises, consolidating the achievements of "Three go, one drop, one supplement", and actively participating in and boosting supply-side structural reform. However, with the increase of market participants, the market for non-performing assets has formed a diversified structure, and the competition is becoming more and more fierce. In the long run, local AMC will also face the following five areas of continued resolution of the challenge.

Insufficient Strategic Planning, Fuzzy Positioning

Many local AMCs have not made strategic positioning for development according to their actual situation and unique resource elements which have not been fully utilized at the beginning of their establishment. Due to the lack of long-term strategic planning, AMC heavily relied on simple channel business for expansion in the early stage, and failed to take the lead in bad business, thus losing its core competitiveness and differentiated competitive advantage in asset disposal. This is not only not conducive to the sustainable development of the company, but also goes against the original intention of the financial license granted by the supervision, and at the same time brings bad influence on the healthy development of the whole NPL industry (Zwikael & Ahn, 2011).

Industry Competition Intensifies, Difficult Transition

With the increasing number of market entities and the frequent approval of licenses, this advantage of the scarcity of licenses is lost, leading to a sharp increase in the level of competition in the primary market and secondary market, and increasingly fierce inter-industry competition (Guo, 2017). The reasons are as follows: (1) With the establishment of the Bank AIC, the outflow of non-performing asset package was greatly reduced due to the interest drive. Compared with local AMCs, AIC is based in banking groups and has an advantage in terms of the quantity and price of front-end NPLs; (2) Under the trend of strong regulation, the four AMCs were required to "Do fine professional, Return to the main business", increasing the competition with local AMCs in the primary and secondary markets; (3) As Chinese financial sector gradually opens to the outside world, foreign capital has been coveting the domestic non-performing assets business for a long time, which will further increase the degree of competition in the industry.

Insufficient Disposal Capacity, Long Turnaround Period

At present, there are new characteristics of non-performing loans of Chinese financial institutions, such as due to the constraints of various factors, local AMCs have some business not carried out, the effective use of disposal means in practice is not flexible, disposal means to be diversified. In addition, local AMCs in China have been established for a short time and lack rich experience and means. They just copy the four major AMC NPL disposal modes, which cannot conform to the market demand in the new era under the background of supply-side structural reform. This forces the local AMCs to abandon the past profit model, to transform and upgrade the "discount, packaging and lawsuit" model, to improve their own ability and level of disposal of non-performing assets, to play a unique advantage, and to help the real economy to move steadily and far.

Difficulty in Raising Funds, High Financing Cost

China's local AMC capital source channel is mainly through bank loans and shareholder input capital support, at present, some AMCs have been structured financing through non-public issuance of corporate bonds, but in general, it still presents three major characteristics of single financing channel, short term and high cost (Wei, 2017). The small scale of financing, narrow channels, and increasing demand due to the rising cost of funds all increase the difficulty of local AMCs to dispose of non-performing assets, and also restrict the scale of disposal. It is difficult for local AMCs to play a good role in preventing and resolving systemic financial risks and providing support for supply-side structural reform (Guo & Zhang, 2015).

Reasonable Talent Structure, Few Professionals

Although local AMCs have borrowed the management experience and the acquisition and disposal methods of non-performing assets from the four major AMCs, there is a serious lack of professional talents in the fields of management, banking, securities and trust due to the short time of establishment of local AMCs and the strong specialization of asset disposal. The current non-performing assets in asset valuation, acquisition and disposal of legal experts, asset evaluation experts and other high-end talents are far from enough, and the actual operation ideas and methods face various tests of practice, which severely restricts the risk assessment, asset acquisition, turnover efficiency and development speed of local AMC.

Strategies for Local AMC Development Path Innovation in China

In the context of deepening supply-side structural reform, how can China's local AMCs leverage their strengths and roles?Only by constantly exploring and innovating development paths in light of Chinese actual conditions can we achieve rapid and steady development, better defuse regional risks, enhance our ability to serve the real economy, and further push forward supply-side structural reform. To this end, the article combined with practice, gives the following suggestions:

Deepening Regional Advantages to Boost Supply-side Reform

Chinese local AMC based on a certain area, for the local development strategy, economic operation, the

condition of industrial structure and state-owned enterprise assets more understanding, in the treatment of small size, number, and dispersion of bad assets, and in the guard defuse financial risks, the disposal of local financial assets and enterprise has more pertinence and flexibility. The advantages of collaboration are obvious and the disposal efficiency is high, which is the biggest advantage of local AMC compared with the four AMC. Local AMC has very convenient conditions to support the gradual development to the relatively active local economy, cities, counties, under the prefecture-level AMC branches (Huang & Xiao, 2017). This unique advantage determines the strategic positioning of regional, differentiated and refined development of local AMC. Therefore local AMC should make full use of local resources, collaboration, the unique advantages of convenience and regional familiarity, to meet the needs of business development, and local governments, in the economic developed or large non-performing assets sum set up companies or offices, ready to rational distribution, city and county levels, realizing a complete coverage of the province business layout. Deep ploughing the local market, tapping local demand, and giving full play to its own ability to integrate local industry and economy (Huang & Xiao, 2017).

At the same time, local AMC can give preferential policy support in key industries, so as to promote the elimination of ineffective and inefficient assets of enterprises, maximize the utility of core high-quality assets, revitalize the stock and optimize the increment. Actively support enterprises in achieving the targets of deleveraging, overcapacity reduction and transformation and upgrading, promote the shift of economic drivers, the transformation and upgrading of traditional industries, enhance industrial strength and competitiveness, promote the transformation of industrial structure, and provide strong support for reducing corporate leverage ratio.

Excavate Bad Value and Enhance Added Value of Assets

In order to better defuse risks and serve the real economy, local AMCs in China should make great efforts in the disposal of non-performing assets, change the traditional concept of disposal, and make full use of modern high-tech means, such as artificial intelligence, to explore a set of scientific and effective investigation technologies.

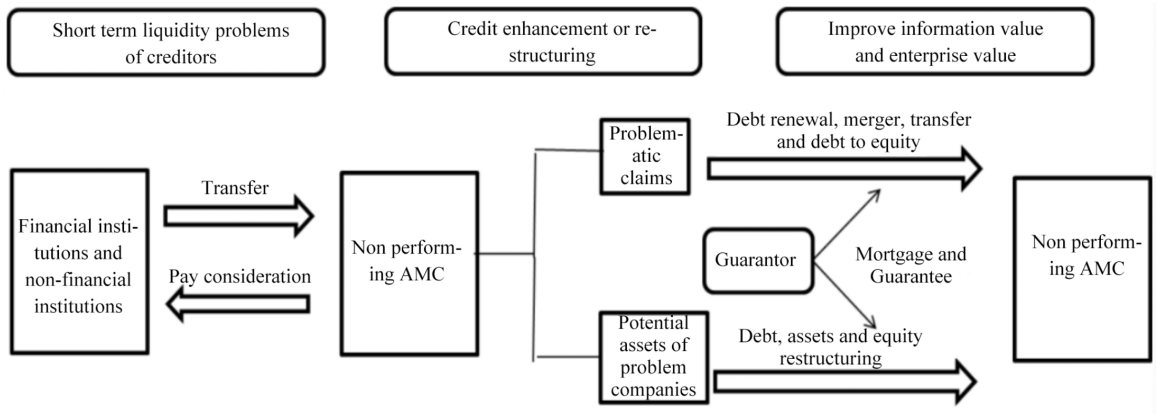


Figure 1. Business model of acquisition and reorganization of non performing assets

Through the method of asset revaluation and capital market operation, to achieve the purpose of asset value enhancement. This capability is the core competitiveness that determines whether local AMCs in China can

achieve rapid development.Therefore, it is necessary to establish a set of asset pricing model in line with its own reality, try to introduce investment bank thinking, fully improve the innovative use of investment bank thinking mode in the disposal of non-performing assets, and quickly transform the traditional "discount, package and lawsuit" disposal mode into "restructuring, restructuring and reconstruction" gradually, so as to achieve excess returns.

Innovate Disposal Methods and Improve Disposal Efficiency

At present, the disposal means of non-performing assets include secondary sale, discount liquidation, liquidation, reorganization, bankruptcy liquidation, litigation, transfer, additional investment, debt-to-equity swap, etc. Each approach has its advantages and disadvantages.Through skilled use of comprehensive tools and various disposal means, asset value can be deeply mined and asset added value can be further enhanced (Zheng, 2016).

Table 1. Traditional and innovative modes of non performing assets disposal

Pattern	Disposal method	Advantage	Disadvantage
Traditional model	Settlement through negotiation	The difficulty and low cost of actual execution reduce the adverse impact on the debtor	The effect of collection mainly depends on the borrower's repayment ability and ability
	Litigation recovery	Effective control of assets held by debtors or guarantors	Manpower is time-consuming and costly
	Bulk sale	Short time cycle, high capital utilization	The value added rate is low and the disposal yield is low
	Entrusted disposal	Entrust non licensed companies to handle in the morning to improve efficiency	We need to pay the commission fee
	Debt restructuring	Accelerate the realization of resource integration and poverty alleviation	The requirement of disposal ability is high and the practical operation is difficult
Innovation model	Debt to equity swap	Reduce the debt ratio of enterprises and relieve the regulatory pressure on non-performing loans of banks	Liquidity risk and credit risk are high
	Industry finance fund	Improve the disposal efficiency, increase business friends, and make full use of comprehensive financial services	The operation is complex and requires high management level, trading structure design ability and capital strength
	Securitization of non performing assets	Real asset listing, batch conversion and market pricing	It is difficult to evaluate the stock price of the underlying assets
	Internet plus disposal	Information symmetry, transparency, convenience, flexibility, low cost, high efficiency, easy to supervise	Requirements for qualification, lack of authoritative and professional platform

Local AMCs in China should continue to explore and innovate effective disposal methods, increase disposal efforts, improve disposal efficiency, create diversified financial service means, explore the comprehensive use of various instruments and financial disposal methods of the capital market, and continue to give full play to their geographical advantages of financial services. Multi-pronged efforts should be made to promote structural adjustment of real enterprises and local economies, and play a full role in mergers and acquisitions, debt restructuring, market-oriented debt-for-equity swaps, and bankruptcy management (Zheng, 2016). At the same time, local AMCs should keep pace with the times, constantly integrate modern artificial intelligence and other scientific and technological means, broaden the disposal channels, introduce Internet thinking, and implant Internet genes into the disposal of non-performing assets. Through the network platform, it looks for appropriate investment opportunities and constantly innovates the business model of non-performing assets disposal (Mishra, 2003). Moreover, it is necessary to give full play to the function and role of ecological network channels such as exchanges, netauction houses, evaluation agencies and law firms, and strengthen the cooperation with Tianjin Financial Assets Exchange and Beijing Financial Assets Exchange. Build a national efficient disposal platform, enrich the disposal means of non-performing assets, improve turnover, and promote the innovation and development of the non-performing assets industry (Li, 2015).

Promote Debt-for-equity Swaps and Try Securitization

Further optimizing the existing financing structure of enterprises through debt-for-equity swaps can help some enterprises get rid of the heavy debt, thus realizing the internal reorganization and optimal allocation of resources, and enhancing the vitality of enterprises and the core competitiveness of the market. Promoting the reform of state-owned enterprises and the adjustment of industrial structure layout of private enterprises, and promoting enterprises to change the single ownership structure, are conducive to enhancing the sustainable development ability of enterprises (Guo, 2017). At present, debt-for-equity swaps with shares, debt-for-equity swaps with debt collection and debt-for-debt swaps with equity issuance are three commonly used operating methods.

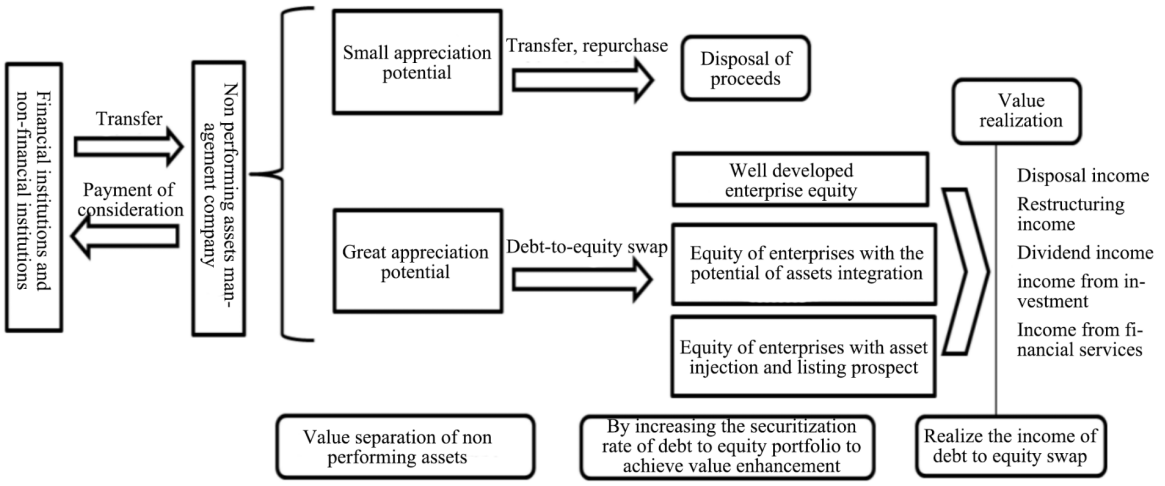


Figure 2. Non performing asset debt to equity swap model

At present, market-oriented debt-for-equity swaps in China have entered the stage of accelerating implementation. As one of the powerful means of "deleveraging and debt reduction", local AMC has certain geographical advantages. Through the "time-for-space" approach, the unique regional advantages of local AMC should be given full play to reduce the high debt ratio of enterprises and promote the return of healthy development of enterprises. After the implementation of the debt-for-equity swap, the debt-for-equity swap enterprises may have the conditions for listing and help promote the access to the capital market for standardized operation, which not only improves the operation capacity of local AMC, but also improves the quality and efficiency of economic growth.

Non-performing asset securitization is a form of asset securitization, and its essence is a kind of securitization that uses the future cash flow generated by the established asset pool as the underlying asset to issue new bonds. The asset pool of non-performing asset securitization designs an asset portfolio composed of multiple non-performing loans (Zhou, 2015). In December 2015, the CBRC approved Bank of China to restart the first "NPL securitization" business, pressing the "reset button" for the market-based disposal of NPL. The securitization of non-performing assets can effectively break through the current debt situation which is heavily dependent on bank loans and the risk of asset-liability cycle mismatch, so as to effectively reduce the cost of capital. Under the premise that the current leverage ratio limit is clearly stipulated, the operation scale should be effectively expanded to reduce the temporary holding and disposal of the acquisition and disposal of non-performing assets. Through the securitization of non-performing assets, funds from the sale of stock projects can be used to purchase non-performing assets and invest in new projects, accelerate asset turnover and capital return, break through the restrictions of economic capital, and adjust business structure and objectives (Guo, 2015). In addition, it can simultaneously meet the requirements of capital regulation and leverage regulation, ease the capital and capital constraints of regulatory subjects, expand the scale of the main business of non-performing assets, improve the efficiency of asset disposal and disperse risks, and realize the transformation of profit model.

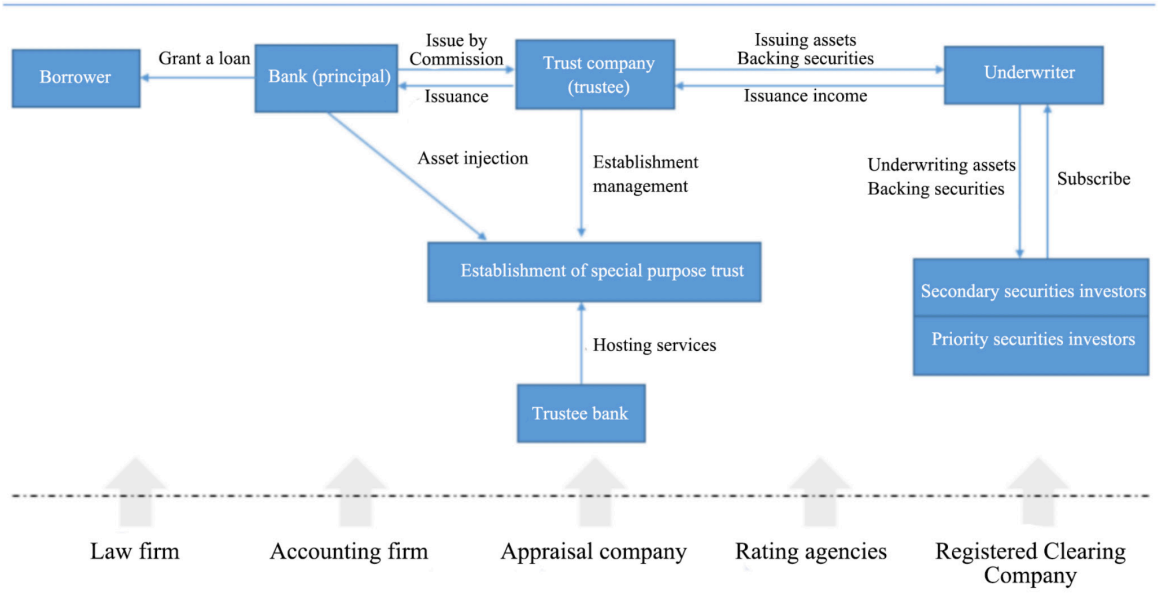


Figure 3. Structure chart of non performing assets securitization transaction

Innovate Financing Methods and Expand Financing Channels

AMC has a single financing method, few channels and high cost. The short financing term and high financing cost greatly shorten the capital use cycle during the disposal of non-performing assets, and to some extent reduce the disposal income, making it difficult to achieve the purpose of cross-cycle acquisition, disposal and resolving financial risks.

On the one hand, AMC can through the traditional shareholder, local government financial, asset transfer and premium to introduce four AMC, optimization in the form of financial investors and financial structure, enhance the capital strength, thus improve their fund-raising ability and efficiency, also can use shareholder guarantee bank loans, private capital use leverage to promote business (Wei, 2017), on the other hand, it can also accelerate the innovation of financing way. We can divide local AMCs into standard financing and non-standard financing. Standard financing methods mainly include: financial bonds, asset-backed securities, corporate bonds, special bonds (green special bonds, debt-for-equity special bonds, etc.), targeted instruments, corporate bonds, medium-term notes, exchangeable bonds, aggregate bonds for small and medium-sized enterprises, project income notes and short-term financing bonds. At present, local AMCs in China have raised 70 billion yuan through standardized financing instruments. Non-standard financing methods include: trust plan, single asset management plan and other financing products and other financing channels.

This paper suggests that local AMC should make use of the capital market and bond market for market-based financing, and the regulatory authorities should provide broad policy support from the strategic height of preventing and defusing regional financial risks, so as to explore long-term, low-cost financing channels and innovate financing methods.

Strengthen Team Construction and Cultivate High-level Talents

Talent training should be elevated to an important strategic position for implementation, and a large number of talents proficient in financial asset management should be introduced, absorbed and trained to lay a solid talent foundation for future strategic transformation (Li, 2015). To innovate the talent training system and management system, we need to start from internal training and external introduction. On the one hand, we need to conduct professional training on finance, law and finance knowledge for existing employees, and carry out multi-channel, multi-level and large-scale training and learning for professional and practical talents. Invite experts or technical personnel to carry out regular training. It is very important to focus on cultivating a group of high level and high skill practical talents. On the other hand, we will recruit highly qualified and competent professionals from the society in a fair and open manner. Establish a talent exchange and training mechanism with similar institutions at home and abroad. At the same time, AMC should attach importance to integration and employ experts with rich theoretical knowledge and practical experience from relevant securities and investment industry, consulting and evaluation industry, finance, management, law and intermediary institutions, as well as colleges and universities to establish an expert pool and think tank of AMC. By introducing professional talents in various ways and establishing a complete pool of high-level professional talents, local AMC in China is expected to rise to a new level in theory and practice.

Strengthen Win-Win Cooperation and Establish an Efficient Disposal Platform

Coordinated development and coexistence of differences are the general trend of the industry and the only way to go.Local AMCs in China are currently limited to buying non-performing assets in local provinces and cities, which are small and restricted.Therefore, we must combine the advantages of local AMC (convenience and efficiency) with the advantages of the four AMC (rich experience), introduce and learn from each other, build a business model suitable for regional strategic needs and their own characteristics and sustainable development, and further improve the efficient disposal capacity of local AMC in China (Guo & Zhang, 2015).

AMC should strengthen horizontal cooperation, form a normal contact mechanism, and make use of the scale effect to enhance the overall competitiveness.In addition, cooperation and collaboration between local AMCs and non-governmental AMCs can complement each other, jointly build the industry ecosystem and improve the overall strength of AMC (Guo, 2017).

Set up an Acquisition and Disposal Fund to Leverage Resources for Common Development

AMC can cooperate with financial institutions of central enterprises, local state-owned companies, local provincial and municipal governments, leading enterprises in upstream and downstream industries, strategic investors and social investors to establish deep strategic partnership. By leveraging the magnifying effect of capital, NPL Acquisition Fund, Industrial Restructuring Relief Fund, Special Asset Fund, Marketized Debt for Equity Fund, Bailout Fund and Deleveraging Fund are launched with less capital. Develop special non-performing assets business locally and leverage social capital and resources through industrial funds and equity investment. Under the principle of win-win cooperation, AMC integrates outstanding talents, idle funds and advanced management concepts into AMC through the mode of "attracting investment, attracting wisdom and attracting management", so as to form a professional financial service system covering the whole life cycle of enterprise customers and the upstream and downstream industrial chains.

In the new era, AMC has always stayed true to its original mission. Under the background of supply-side structural reform,AMC will continue to take the mission of "new force for financial risk mitigation, new force for regional financial risk mitigation, and service for the real economy" (Liu, 2017). Based on the local situation, financial methods and means should be innovated in combination with the actual situation, and the non-performing asset market should give full play to the regulatory role of the economic cycle, the "stabilizer" of the financial system and the "booster" of the real economy, so as to effectively resolve the impact of financial risks on the region and smooth out the impact of economic cycle fluctuations on the region (Zhou, 2017). We will deepen reform and innovation in the area of non-performing assets, leverage our unique regional strengths and carry out supply-side structural reform of services to boost the quality of China's economy.

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