Market Needs for Financial Training in China

China's GDP has had an average growth of 8-9% in recent years and its growth momentum is expected to continue in the coming years. While the financial sector has played and will continue to play a significant role to facilitate this momentum, extensive restructuring and changes in China's weak financial sector are unavoidable. China's accession to the WTO brings the urgency of such changes which present great business potential for financial training services. The Chinese government and financial institution management have already recognized that the immediate threat from foreign competition will be the loss of talent, and the most serious resource constraint will be high quality professionals across all levels.

Total number of employees in China's financial sector is 4 million. Potential market for financial training services in China is huge in terms of the number of financial institutions and employees, as well as its growth potential. Most importantly, the current substandard knowledge and skills with respect to financial products and operating procedure, and the lack of expertise in risk management and capital management post a pressing demand for a broad range of financial training. Targeted training participants are managers and young professionals from Chinese financial institutions, as well as local employees working for foreign financial institutions in China.

US Financing Techniques in China: Mission Impossible?

By Dan Slater, Finance Asia, 26 July 2002

William Hui believes not. He has already carried out two very successful, very expensive training sessions to teach Goldman Sachs-style techniques to China new breed of investment bankers.

Put your money where your mouth is: that is the refrain of China skeptics reluctant to admit that China is serious about reform. Surprisingly, in view of the Wild West atmosphere so prevalent in China's financial markets, that is exactly what China's investment banks have been doing. Shelling out US $3000 per head for a five day course in corporate financing techniques, essential in western markets for everything from IPO pricing to M&A.

"We didn't market the course as 'advanced', even though they are by Mainland standards. Rather, we stressed that they are very common by international standards," says Hui, 41, a Harvard MBA and CEO of

Beijing-based Chainshine Financial Training, which implements the courses together with leading US financial education firm Adkins, Matchett & Toy.

The training market could be large. The banking sector alone contains 1.5 million employees, while securities firms and insurance companies have 100,000 and 500,000 employees respectively. However, the bureaucratic and protected banking sector is generally reluctant to pay for training, while the securities and insurance companies are desperate to get an edge.

Financing techniques in China have historically been rudimentary, not only because of the short history of the capital markets, but also because much more subjective factors are taken into account when carrying out a listing, merger or acquisition.

"The securities houses are all state-owned, so government connections and backhanders have been an important way of doing businesss. But the success of our workshops suggests this culture is slowly changing," says Hui.

Senior management at securities houses are appointed by the government, and they tend to be uninterested in anything that can not show an immediate return. Also, as political appointees, they often have only a rudimentary financial education themselves. Yet middle managers are thirsty for this kind of knowledge.

"At university, we're taught in Chinese and not by industry practitioners. So it's great to get exposure from foreign experts who have hands-on experience of the investment banking industry," comments one Beijing University finance major.

Interestingly, the courses take place in the boom town of Shenzhen, just over the border from Hong Kong. Only a handful of investment houses are based in Shanghai, and even fewer in Beijing. Perhaps the threat of Shanghai taking over Hong Kong as the next financial center are overblown.

"The bulk of the securities houses are based in Shenzhen. There is a market orientation and hunger there which made it the obvious place to carry out our training," says Hui.

During the course, students come face to face with something they have rarely encountered before: a clear and strictly enforced disciplinary policy. The owner of a beeping mobile phone must deposit Rmb 5 ($0.60) into a clear plastic container at the front of the room. The students learn fast. After filling very rapidly over the first morning, it barely changes thereafter.

Yet in the real world, "regulations and enforcement are a very weak part of the Chinese capital markets," Hui comments. "Regulations are applied unevenly and many companies get away with too much. "

The government is wary about the reform process getting out of control. So instead of issuing a raft of detailed regulations, it issues rough guidelines which enables it to retain plenty of discretion for interfering if changes are deemed necessary.

The main capital markets regulator, the China Securities and Regulatory Commission is noticeable by its absence. Perhaps it is too busy scouring the markets for malefactors, although its record is not impressive, judging by the tiny number of companies delisted and fines levied.

"People come to the financial markets because they are drawn to the prospect of overnight riches," says Hui, "but it's that get-rich mentality which contributes to many of the problems. "

One of Hui's courses, organized for the Bank of China, reflects the disciplinary problem. As part of their business ethics module, staff visit a prison and speak to an inmate, who in a previous incarnation has been a stock market manipulator. Yet things are changing.

With China's entry to WTO, local bankers realize they must up-skill and rely less on brokerage commissions, which make up between 40-60% of profits.

But stagnant markets and the abolition of fixed commissions in May is putting huge pressure on this revenue source. Everyone wants to emulate China International Capital Corporation, the joint venture investment bank with Morgan Stanley. Although most bankers laud it for its professionalism, there are also grumbles that its success in participating in most the major domestic and foreign IPOs is due to the presence within the bank of Levin Zhu, the son of China's reforming premier, Zhu Rongji.

The gulf between CICC and the rest is huge. CICC carries out multi billion Rmb IPOs while the others must be satisfied with deals of around the Rmb 50 million mark. Size is important, since fees are down to around 1%, considerable lower than in western markets.

Yet with so many houses vying for business and the CSRC reducing the number of proposals to a maximum of eight, bankers are must get their act together. "

Previously, bankers just threw as many as (listing) proposals at the CSRC as they could, but the CSRC will now only allow new proposals if the previous ones have been cleared. So bankers have been working much hard at making the proposals attractive,″ says Hui.

Using sophisticated valuation techniques also makes it possible to be more persuasive as to the merits of a company's listing, he adds. The trend is clear: China's progression towards a market orientated, better disciplined financial industry is slowly but surely underway.