

# **Analysis on the sustainable development of China trust industry**

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**Abstract.** Since 2007, China trust industry has grown rapidly but is difficult to develop continuously and healthily. There exist many unfavorable factors affecting the sustainable development of China trust industry. The superiority of China trust industry is obvious but it has no exclusive business, no core competence, no sufficient trust talents, and its' external environment is severe, but China trust industry also faces rare development opportunities. In order to realize the sustainable development of China trust industry, China should perfect trust law and policy system, train trust professional personnel through various ways, perfect trust company governance and cultivate exclusive business of China trust industry.

**Keywords:** China trust industry, sustainable development, exclusive business, professional personnel

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## **1. Introduction**

Trust is one kind of legal relationship and institutional arrangement, the generalized trust industry refers to all industries based on trust principle and trust system, according to this definition, a lot of wealth management services provided by commercial banks, securities companies, insurance companies and other financial institutions can be subsumed into trust industry. But in daily context, according to China Trust Law, China trust industry only refers to the trust businesses opened up by trust companies. In this paper, we take the latter

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meaning of trust industry and analyze the development of China trust industry according to 67 trust companies; the trust businesses carried out by other financial institutions are not included.

China modern trust industry stemmed from the establishment of China International Trust and Investment Corporation in October 1979, then, in the next brief 30-plus years, China trust industry has undergone a tortuous course of development and has experienced six regulations. Since 2007, with the implementation of new deal about trust industry, China trust industry has embarked on the normative path of development and has made brilliant achievements.

Though China trust industry has made great success, there are many problems and challenges influencing its future development. China should seize the opportunities and take a variety of measures based on the reality of contemporary China to realize the sustainable development of trust industry. This paper introduces the status quo of China trust industry firstly, secondly evaluates its development through three aspects, thirdly analyzes factors influencing trust industry and finally puts forward suggestions for the sustainable development of China trust industry.

## **2. The Status Quo of China Trust Industry**

The status quo of China trust industry can be illustrated from the following aspects: the situation of China trust companies, the main economic indicators of trust industry and the application fields of trust assets.

### **2.1. The Brief Introduction of China Trust Companies**

At present, there are 67 trust companies in China. Seeing from the controlling shareholders, the state-owned shareholders occupy the absolute dominant position. In 2011, 64 trust companies disclosed the annual reports which showed that most of the controlling shareholders of China trust companies have the background of state-owned assets.

In addition, the ownership concentration of China trust companies is higher, for the 64 companies, the median of the total share proportion of the controlling shareholders and the disclosed related parties is 70%, there are 49 trust companies that the share proportion of controlling shareholders and the disclosed related parties is more than 50%. Seeing from the number of shareholders, there are 2 companies that have one shareholder, 13 companies that have two shareholders and 15 companies that have three shareholders in the

64 trust companies. So, the ownership concentration of China trust companies is higher and the number of the shareholders is smaller.

Compared with other financial institutions, China trust companies have the advantages of the broadest scope of investment and the most flexible method of investment. China trust companies are called industrial investment bank in China, they can use almost all financial instruments, and provide package of financial services for the real economy.

## 2.2. The Main Economic Indicators of China Trust Industry

This paper chooses inherent assets, ownership interest, trust assets, trust business income, operating revenue and total profits as the main economic indicators of China trust industry. The main economic indicators of China trust industry are shown in table 1.

Table 1: Main Economic Indicators of China Trust Industry.

season	inherent assets (billion Yuan)	owner-ship interest (billion Yuan)	trust assets (billion Yuan)	trust business income (billion Yuan)	operating revenue (billion Yuan)	total profits (billion Yuan)
2010q1	123.1	108.7	2374.5	2.2	3.9	2.6
2010q2	123.9	109.1	2915.3	5.4	9.6	6.6
2010q3	131.4	114.2	2957.0	5.8	10.9	7.6
2010q4	148.3	132.0	3040.5	16.7	28.4	15.9
2011q1	153.5	139.5	3268.0	5.4	7.1	4.7
2011q2	161.4	144.5	3742.0	12.4	17.3	11.9
2011q3	164.5	149.3	4097.8	20.2	26.6	18.5
2011q4	182.5	163.3	4811.4	34.6	43.9	29.9
2012q1	186.7	169.8	5301.6	5.2	10.6	7.7
2012q2	200.4	180.7	5538.2	18.1	25.9	19.0
2012q3	208.3	189.2	6320.2	29.3	40.0	28.8
2012q4	228.2	203.2	7470.6	47.2	63.8	44.1
quarterly or annual growth rate(%)	5.8	5.9	11.0	68.2	50.0	66.7

From: China Trustee Association (<http://www.txh.net/sjtj/index.html>)

Calculating from the data, we get that from the first quarter in 2010 to the fourth quarter in 2012, the average quarterly growth rates of the inherent assets, ownership interest and trust assets are 5.8%, 5.9% and 11% respectively. The

average annual growth rates of trust business income, operating revenue and total profits are 68.2%, 50.0% and 66.7% respectively.

The income structure indicates that China trust industry has regressed to the original function of “authorized by one, financing on his behalf”, the proportion of trust business income in operating revenue has grown to 73.9% in the fourth quarter in 2012 from 55.9% in the first quarter in 2010, thus fully embodies the function orientation of trust industry.

The main economic indicators show that China trust industry has made brilliant achievements and has strong potential for further development.

### 2.3. Wide Application Fields of Trust Assets and Insisting on Servicing the Real Economy

In the environment of separated operation of China finance, trust companies are the only institution that can dispose trust assets across the industrial market and financial market. China trust companies can operate all financial and investment banking businesses except for the savings business, securities brokerage and insurance businesses. The main application fields of China trust assets are shown in table 2.

Table 2: Main Application Fields of China Trust Assets.

season	Infrastructure industry(%)	real estate industry(%)	financial institutions(%)	industrial and commercial enterprises(%)	securities market(%)
2010q1	40.2	10.6	9.8	14.8	6.2
2010q2	22.6	12.8	12.1	24.4	10.1
2010q3	35.5	13.4	6.2	18.7	8.4
2010q4	34.4	15.0	5.2	18.6	9.5
2011q1	31.8	15.6	5.5	18.2	9.9
2011q2	28.3	16.9	6.6	19.3	10.0
2011q3	24.8	17.2	8.7	20.8	9.0
2011q4	21.9	14.8	12.7	20.4	9.1
2012q1	21.9	13.5	13.9	21.6	9.0
2012q2	22.6	12.8	12.1	24.4	10.1
2012q3	23.3	11.3	11.0	25.1	11.3
2012q4	23.6	9.9	10.2	26.7	11.6

From: China Trustee Association (<http://www.txh.net/sjtj/index.html>)

The data indicate that China trust industry has wide business fields and is

firm supporter for the real economy, trust assets are mainly invested in the real economy in which infrastructure, industrial and commercial enterprises and real estate industry are always the first three application fields of trust assets, the fluctuations of the proportion in each field are not obvious but adjusting properly with the national macro-control, for example ,the proportion of investment in the industrial and commercial enterprises has grown from 14.8% to 26.7% , but that in the real estate has declined from the peak of 17.2% to less than 10%, and that in the infrastructure industry is about stable 22% in recent two years.

### **3. The Evaluation of China Trust Industry**

Based on the data availability and the practice of China trust industry, we use quantitative and qualitative methods to evaluate China trust industry in terms of the following aspects.

#### **3.1. The Role of Trust Industry in China Economy**

In the UK and the US, though there are special trust companies, the trust businesses mainly carried out concurrently by other financial institutions which are not called trust companies. But in China, because of the historical reason and the financial system of separated operations, trust businesses can be only carried out by trust companies, thus form the sub-trade of finance—trust industry, and china trust industry plays an important role in the development of china economy.

China trust industry benefits the transformation of savings to investment and improves the capital allocation efficiency. China is saving glut but lacks transformation mechanism of savings to investment. On the one hand, many enterprises, especially the small and medium-sized enterprises face the problems of financing difficultly and financing expensively; on the other hand, a large number of private capital can not find the appropriate modes of investment. Trust industry can get the private capital together and promote the efficiency of financial resource allocation so as to serve the real economy well.

Trust is considered a natural instrument of industry and finance combination, it has obvious advantage in serving the real economy. The modes of applying trust funds include equity investment, debt investment, mezzanine finance and all kinds of usufruct investments, trust companies can make financing plan according to enterprises' characteristics. In addition to financing, trust companies can help to perfect the ownership structure and optimize the governance of financiers.

Trust industry satisfies the residents' demand for investing and financing, and helps the residents to get huge property income. According to the statistics, from 2009 to 2011, trust companies helped investors get trust incomes of 55.2, 67.8 and 117.8 billion Yuan respectively, while the incomes of trust companies were 8.4, 16.7 and 34.6 billion Yuan respectively. The data shows that through the trust company's business, the investors share in the fruits of economic development.

### 3.2. The Development of Trust Industry Depending Excessively on the Superiority of Trust System

The superiority of trust industry mainly lies in the superiority of trust system, broad application fields and flexible product designs. The outstanding characteristic of trust system is the independence of trust property, the independence means that any debtor of trustor and trustee and beneficiary can't claim right to trust property. In addition, China trust industry enjoys one kind of particular superiority caused by China system of Divided Financial Operations, that is, the business of other financial institutions is limited in particular market, while trust companies can operate business in different markets, that is to say, trust companies can allocate assets across money market, capital market and industry market, thus makes China trust companies become channels or platforms of other financial institutions.

The superiority of trust industry helped to increase the share of trust industry in the asset management market. The data show that from 2004 to 2012, the average annual growth rate of assets managed by trust industry is 63.0%, much larger than that of insurance industry and public fund industry, which are 25.6% and 31.3% respectively. And the proportion of asset managed by trust industry in the total asset managed by three industries has increased year by year, from 9.0% in 2004 to 42.2% in 2012. The asset management market shares of three industries are shown in table 3.

Table 3: Asset Management Market Shares of Three Industries.

year	trust industry		insurance industry		public fund industry	
	amount (billion Yuan)	proportion (%)	amount (billion Yuan)	proportion (%)	amount (billion Yuan)	proportion (%)
2004	149.8	9.0	1185.8	71.4	324.7	19.6
2005	194.6	8.9	1522.6	69.5	473.9	21.6
2006	360.6	11.3	1973.1	61.9	855.5	26.8

2007	935.8	13.2	2900.4	40.8	3276.6	46.1
2008	1242.6	19.0	3341.8	51.2	1938.9	29.7
2009	2057.7	23.4	4063.5	46.2	2681.9	30.5
2010	3040.5	28.9	5048.2	47.9	2440.0	23.2
2011	4811.4	35.7	6013.8	44.6	2651.1	19.7
2012	7470.6	42.2	7354.5	41.6	2870.0	16.2
average growth rate(%)	63.0	—	25.6	—	31.3	—

From: HWABAO Securities. Annual Report of China Trustee(2012).

### **3.3. The Trust Industry Benefiting from the Rapid Growth of China Economy**

China trust industry is oriented at the function of “authorized by one, financing on his behalf”, so, the demand for wealth management is the foundation of trust industry’s survival. Since the policy of reform and opening up was introduced, China economy has grown rapidly and made a lot of wealthy residents, thus the society’s demand for wealth management is flourishing. The survey shows that the number of high-net-wealth individuals who possessing no fewer than ten million Yuan of investable assets will reach 2.2 million in 2015. This means that the potential market of China wealth management is enormous. Chinese residents will put forward great demand for trust industry because they need to maintain and increase the value of their wealth or to transfer their wealth. But we should note that trust business is not trust company’s exclusive business, many financial institutions, such as commercial bank, securities company, insurance company are operating trust business in the forms of wealth management plan, aggregate asset management plan and managed account.

In addition to the wealth management demand, the economic development of China also puts forward great demand for financing, many enterprises and governments all need financing. But under the environment of financial repression in China, a lot of financing demand can not be satisfied, while trust companies, as a kind of direct financing institutions, can play as commercial banks without restrictions and provide financing for the real economy.

### **3.4. The Growth Mode of Trust Industry Being Extensive**

We choose two groups of data to illustrate the growth mode of China trust industry, one is the proportions of financing business and investing business, the other is the proportions of collective money trust and single money trust.

The proportions of different trust businesses are shown in table 4. Calculating from the data, we get that the average proportion of financing trust business is 55% and it is 30% for investing trust business; the average proportion of collective money trust is 23% and it is 72% for single money trust in recent years.

We know that the investing business is ability-demanding and can illustrate the trust company's investing ability; similarly, the collective money trust business is ability-demanding and can illustrate the trust company's active management ability. But we find that the proportion of investing trust business is always lower than that of financing trust business and that the proportion of collective money trust business is always lower than that of the single money trust business in the study period.

Table 4: Proportions of Different Trust Businesses.

season	financing trust business(%)	investing trust business(%)	collective money trust(%)	Single money trust(%)
2010q1	62	18	13	81
2010q2	64	17	12	83
2010q3	62	20	16	79
2010q4	59	24	21	75
2011q1	57	28	24	72
2011q2	54	33	26	69
2011q3	53	34	28	68
2011q4	51	36	28	68
2012q1	50	38	28	68
2012q2	49	38	29	66
2012q3	49	37	27	67
2012q4	49	36	25	68
average	55	30	23	72

From: China Trustee Association (<http://www.xtxh.net/sjtj/index.html>)

Thus we can conclude that the growth mode of China trust industry is extensive rather than intensive. Lack of active management ability and investment ability makes China trust companies become business channel or platform for other professional financial institutions such as commercial banks, securities companies and so on. Though the amount of assets managed by trust companies is huge, the trust companies are in weak position in the cooperation with other financial institutions and only earn cheap channel fee.



In sum, China trust industry seems prosperity but there exist many problems behind the high-speed development and it is difficult for China trust industry to develop continuously and healthily.

## **4. The Factors Influencing the Development of China Trust Industry**

The factors that affect the development of China trust industry include both trust industry's own problems and external conditions. These factors can be summarized as following aspects.

### **4.1. Lack of Exclusive Business and Core Competence**

Trust companies are the only comprehensive financial platform in China financial divided operating system. They are known as financial department store in China yet they are the only financial institutions that do not have exclusive business. Because trust companies can operate business across different markets, for a long time, China trust companies has chosen the model of comprehensive business, engaged in diversified investment and sought to expand in many fields. China trust companies are financial nomads, their business fields switched with the market hot spots. So it is difficult for China trust companies to cultivate core competence. In contrast, commercial banks, securities companies and insurance companies, though their business fields are defined, they are professional in their own business fields. As the deepening of China mixed financial business and the coming of general asset management, the survival space of trust industry that has neither exclusive business nor core competence is becoming smaller.

### **4.2. Improper Incentive and Assessment Mechanism**

The incentive and assessment mechanisms of most China trust companies are simple, mainly guided by income and profit instead of systematic and scientific design. This kind of incentive and assessment mechanism does not benefit business innovation, improving abilities of investment and asset management. On the contrary, in order to achieve the company's business goal, most business personnel are struggling to increase business scale and income, busying with establishing new trust projects while ignoring the middle and later stage management of trust projects, focusing on extending traditional business while ignoring time and effort consuming innovative business.

Oriented by income and profit is understandable, the problem is that the contemporary businesses carried out by trust companies are unsustainable, in

order to develop continuously, trust companies must cultivate new businesses, transfer the growth pattern and this should be fulfilled by appropriate incentive and assessment mechanism.

### **4.3. Lack of Professional Personnel**

Finance is knowledge-intensive industry. As a sub-trade of finance, trust industry has stronger demand for professional personnel. It needs competitive compound talents who are proficient at economics, finance, and management and also at law, accounting. But in fact, because there is no qualifying examination for trust business and trust industry started later in China, the supply of trust talents can not satisfy the demand of trust industry. Many business personnel know neither trust theory nor trust practice. China trust companies seldom offer training for staff, the staff mainly learn from practice, this kind of learning can only made skillful workers rather than talents with deep understanding of trust principle and innovative spirit.

### **4.4. Severe External Environment**

The external environments of China trust industry include social environment, financial environment and system environment. As for the social environment, because of starting late, the social cognition degree of trust industry is lower than that of banking, securities and insurance industries, the trust culture is unpopular and the sense of trust is poor in China.

As for the financial environment, with the deepening of China mixed financial business, many financial institutions, such as securities traders, insurance companies and so on begin to operate asset management business and trust companies are facing drastic market competition.

As for the trust institutional environment, the contemporary China trust system can be summarized as one law and three regulations. One law means Trust Law, three regulations means Administration Procedures for Trust Companies, Administration Procedures for Pooled Funds in Trust Plans of Trust Companies, Administration Procedures for Net Capital of Trust Companies. The Trust Law is aimed primarily at basic trust legal relation, it is not perfect enough to guide trust practice and can not match other laws well. The laws or regulations on trust business, registration of trust assets and transferring of trust products are lacking. There is no circulation market for trust product in China, thus makes the investor's enthusiasm reduce and goes against the function of trust. In contrast with commercial banks, securities companies and insurance companies, trust companies are forbidden to set up branch offices. These institutional barriers were unfavorable for the development of China trust industry. Because

of the imperfect trust system, the trust businesses are restricted in the single scope of money trust in which financing is the main operating method, though the scope defined by Trust Law is extensive.

## **5. Suggestions for the Sustainable Development of China Trust Industry**

China trust industry is in the new age full of opportunities and challenges. Compared with advanced countries, China trust industry is still in the elementary phase but has strong potential for further development. To realize the sustainable development of China trust industry, we put forward some suggestions according to the above analysis.

### **5.1. Perfecting China Trust Law and Policy System**

Law and policy system is the foundation for the development of trust industry but China current trust law and policy system is far from perfect. The existing Trust Law should be improved and judicial interpreted so as to increase its guidance in practice. The problem of mismatch between the Trust Law and other laws, such as Contract Law, Company Law and Property Law should be studied and resolved. In order to give full play to the function of trust industry, a series of laws and regulations such as trust industry law, laws or regulations on trust registration and trust taxation should be issued. To increase the liquidity of trust products, China should make relative policies to establish secondary market which is national and unified for trust products. China should permit trust companies to set up branch offices so that they can compete fairly with other financial institutions.

### **5.2. Training Trust Professional Personnel through Various Ways**

Trust professional personnel are the critical factor for the sustainable development of China trust industry. In countries where trust industry are developed, the system of training, certifying and administering of trust professional personnel are perfect and the professional personnel reserve are rich. Learn from the experience of the developed countries, China should train and reserve trust professional personnel through various ways.

In China system of Divided Financial Operations, the attractiveness of trust industry is weak and the employee fluid rate is high by contrast with other financial industries. China should create comfortable development environment for trust industry to increase its attractiveness. Trust companies should strengthen system building and culture building and retain talents through

rational system, excellent culture and competitive benefits. Trust companies should reform and perfect the recruitment mechanism, take the innovation and high-level as the criteria to choose financial talents with innovation spirit and international view. Trust companies also should perfect the mechanism of incentive and assessment and pay more attention to staff training.

China should develop trust training industry, build training institutions and perfect training course and training mode. The system of qualification authentication of trust industry should be established so as to normalize the access standard and reserve talents for trust industry.

### **5.3. Perfecting Trust Company Governance**

Trust companies should optimize the ownership structure, introduce strategic investors and private capital and lower the proportion of state capital. By optimizing the ownership structure, trust companies can avoid the direct intervention from the major shareholders, increase the abilities of governance and decision-making, and enlarge the business scope.

Trust companies should perfect corporate governance structure and define clearly the duty scope of shareholder meeting, board of directors, board of supervisors and managers. The decision-making should follow the particular procedure strictly, give full play to the speciality committee of board of directors and give full play to the function of board of supervisors in the risk control.

The supervisor should strengthen the supervision of trust companies, appraise the economic indicators of trust companies, and supervise the compliance and whether they are consistent with the macro-control. Whatever pattern and strategy selected, trust companies all should increase the professional ability, increase the ability of innovation, fasten the construction of information technology, strengthen research and cultivate the staff.

### **5.4. Cultivating Exclusive Business and Opening up New Markets**

In China system of Divided Financial Operations, commercial banks, securities companies and insurance companies all have exclusive business respectively, but trust companies do not have the exclusive business. Lack of exclusive business has challenged the survival of trust companies. Facing challenges and problems trust industry should promote the transformation, cultivate exclusive business and form core competence. China trust industry should cultivate exclusive business according to the principle of trust, international experience and China realities. In the long run, trust companies should study trust

principles deeply, fully use the advantage of free trust purpose, develop business in charitable trust, legacy trust and wealth transfer trust.

Trust companies are also facing many opportunities and can open up many new markets. China economy is experiencing structure adjustment, for the industries with excess capacity trust companies can carry out merger and acquisition business. In the process of China urbanization, trust companies can play a more important role, especially in the rural land transfer. With the increase of wealthy people, the demand for family wealth management is rising, family wealth management includes wealth transfer, property right, managerial right and so on and trust companies should explore deeply in these businesses. Besides, trust companies should put in practice differentiation stratagem, choose their own development road according to the background of shareholders and companies' realities.

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