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Research on Family Wealth Management in China

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Abstract: This paper is set against the backdrop of China's rapid economic development since the reform and opening-up, conducting an in-depth study on issues related to family wealth management choices in China. By analyzing the evolution of China's family wealth management market and the challenges it faces, this paper aims to uncover the shortcomings and limitations within the current wealth management system, offering constructive critiques and recommendations for its future direction. Using literature analysis, the study thoroughly reviews and discusses the historical trajectory of China's family wealth management and the major setbacks encountered along the way. The findings show that financial institutions in China are actively promoting innovation in the wealth management field, particularly in the design of customized financial products, the adjustment of financial product starting standards, and the rise of family offices. These changes suggest that despite various challenges, the future of China's family wealth management market remains promising, with potential for further growth through innovation and reform to meet the increasingly diversified wealth management needs, providing households with more personalized and professional services.

Keywords: Family wealth management, Financial Products, Family Office.

1. Introduction

With the rapid development of the market economy, household income levels have steadily increased, leading to a significant acceleration in the accumulation of family wealth. This trend is particularly evident among high-net-worth individuals, resulting in the formation of a large high-end client base. Alongside this growth, the demand for family wealth management has become increasingly diversified and complex. It now extends beyond traditional savings and simple investments to focus more on long-term wealth appreciation, wealth inheritance, and risk management. This shift necessitates that financial institutions provide more targeted and customized wealth management solutions to meet the varied needs of high-end clients.

However, despite the rapid increase in demand, China's wealth management market still lags behind that of more developed Western markets. The overall market maturity remains low, and financial institutions have not fully kept pace with the evolving needs of their clients. Specifically, the independent profitability of wealth management services is relatively weak. Many financial institutions' wealth management operations still rely heavily on other financial sectors, making it difficult to achieve efficient, standalone operations. This indicates that there is substantial room for improvement in areas such as business models, service innovation, and product diversification within

China's wealth management industry. Based on an analysis of the current state of family wealth management in China, this paper further explores its future direction and potential challenges, offering corresponding recommendations. It contributes theoretically to identifying a uniquely Chinese path for family wealth management and provides valuable insights and references for researchers in related fields.

2. The Current State of Family Wealth Management in China

2.1. The Concept of Family Wealth Management in China

In the West, family wealth management is considered a financial service provided by financial institutions, targeting domestic residents as a family unit. Compared to general wealth management, the core theme of family wealth management is the family itself. By analyzing the family's financial status, it aims to understand their financial management needs and uses relevant professional knowledge and analytical methods to align with the family's wealth management goals. This helps families formulate financial plans and scientifically and efficiently manage their assets. Household asset management is a central part of family financial management, covering an individual's entire life cycle from the start of their career to retirement. It includes areas such as real estate, education, family risk management, taxation, retirement planning, and investment management.

In China, research on family wealth management is primarily based on the theoretical foundation of household economics. As the basic unit of participation in economic life, the production, consumption, and investment-financing activities of families play a critical role in the national economy. Household finance refers to the activities of families participating in the financial market by trading financial instruments, including their investment and financing activities with not only banks but also other financial institutions such as securities firms and insurance companies. Household finance is the term for a series of financial activities where individuals or families engage in rational planning and management of their assets to preserve and increase the value of their monetary assets [1]. Family wealth management involves the strategy of choosing different asset combinations to maximize income for the household.

2.2. The Development Process of Family Wealth Management in China

The concept of modern financial management was introduced in China relatively late. In 1997, the Guangzhou branch of CITIC Bank established the first "Personal Wealth Management Department." After more than a decade of development, family wealth management began to thrive. As various reform policies were introduced, people became eager to rely on investment tools to generate income. Especially after China joined the World Trade Organization, financial awareness grew in step with the times, and people's understanding of wealth management improved, thus creating a promising outlook for the development of China's financial market.

As the traditional large family structure gradually transformed into smaller nuclear families, people began to place greater emphasis on issues such as retirement and education. With significant improvements in the quality of life, the focus shifted from merely solving basic living needs to enhancing overall living standards. Additionally, rising incomes and the abundance of material goods led young people to pay more attention to improving consumption quality and managing spending across different periods. They now formulate long-term, reasonable consumption plans based on their income levels and opt for higher-end purchases, such as automobiles and housing.

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2.2.1. Setbacks in the Securities Market

The establishment of the Shanghai and Shenzhen Stock Exchanges in the early 1990s marked the beginning stage of China’s securities market. After more than a decade of rapid development, China launched the stock split reform in 2005, which signaled the A-share market's gradual entry into an "all tradable" era. This reform laid the foundation for market-based pricing and the long-term development of the stock market, promoting the standardized growth of China's securities market.

Before the reform and opening-up, household incomes were relatively low, and the variety and quantity of financial products available were limited. As a result, Chinese families mainly saved their money in banks or purchased government bonds. With the rapid development of the national economy, household income grew significantly, and traditional, single financial products could no longer meet the growing demand for investment. This led to the rapid growth of investment tools such as mutual funds and stocks, further driving the development of China’s securities market.

However, high returns in the securities market also come with high risks. Since its establishment, China’s securities market has experienced several major setbacks. The financial crisis of 2008 caused the Shanghai Composite Index to plunge from 6,000 points to below 2,000, a drop of over 70%, which had a significant impact on Chinese investors, causing many families’ stock assets to shrink drastically. In recent years, the ongoing US-China trade war has caused the Shanghai Composite Index to fluctuate around 3,000 points, prompting many families to temporarily withdraw from stock market investments [2].

2.2.2. Real Estate Market Downturn

In the early 21st century, driven by high market investment enthusiasm and loose financial policies, housing prices in China began to rise significantly. The real estate market experienced a bubble, with housing prices in some cities surpassing reasonable limits. To curb the rapid price increases, the government implemented a series of regulatory measures, including purchase restrictions, raising down payment requirements, and introducing property taxes [3].

However, in 2008, China enacted the "Four Trillion Yuan" policy, which included two major initiatives in the real estate sector: increasing support for the construction of low-rent housing and accelerating the renovation of shantytowns. The implementation of these two policies injected substantial funds into the real estate market, further pushing up housing prices. At the same time, China’s land finance policy, influenced by rising housing prices, brought considerable revenue to local governments, further stimulating the real estate market and accelerating the growth of housing prices. These factors combined with strong public confidence in the real estate market led to continuous price increases for over a decade, and many families invested in property, achieving stable asset appreciation.

Since 2020, however, due to the combined effects of multiple domestic and international factors, China's real estate market has gradually entered a downturn. On the supply side, the Chinese government tightened real estate development loans, and land finance reached its limits as most available land had been sold, leading to a significant reduction in funds flowing into the real estate market. On the demand side, young consumers, who form the majority of the buying base, have become cautious about investing in high-value assets like property, with many preferring to rent instead. This has further cooled the real estate market, leading to a downward trend in housing prices.

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3. The Development Direction of Family Wealth Management in China

3.1. Adjustments and Changes of Multiple Investment Products

Customized financial products are becoming increasingly common. For a long time, major commercial banks and investment banks in China have primarily offered basic types of investment and financial products, such as deposit collection, loan guarantees, specialized personal accounts, and microloans. These products have generally been limited in variety, with severe price homogeneity, and there were relatively few financial products for other types of investment [4]. With the innovation and development of banking investment and financial services in China, enhancing the competitiveness of financial products has become urgent. Typically, customers of different types have varying investment needs, and the demand for different products inevitably leads to significant differences in service requirements for financial services. As a result, many large domestic banks are trying to introduce personalized financial products, tailoring these products to meet the specific investment needs of clients, aiming to preserve and increase customer assets as much as possible. However, due to the current cost limitations of customized financial products, they are still mainly targeted at high-net-worth individuals. While this marks a significant step forward for China's banking industry, the future of personalized financial products will continue to focus on how to meet the actual service needs of a broader range of customers.

The minimum investment thresholds for bank financial products have been adjusted. Excessively high entry barriers have limited the ability of households to invest in bank financial products. For urban households with financial assets below 100,000 yuan, only 0.7% invest in bank financial products, while 17% of households with financial assets above 100,000 yuan do so. This clearly shows that the previous 50,000 yuan minimum investment threshold significantly restricted households with lower financial assets from investing in bank financial products. In a 2019 survey asking households about their acceptable minimum thresholds for bank financial products, 53% indicated that they preferred a minimum threshold below 50,000 yuan. This clearly demonstrates the impact of investment barriers on household investments [5]. In recent years, banks have adjusted the minimum thresholds for financial products, introducing products with starting points of 1 yuan or 10,000 yuan. These adjustments have optimized the minimum threshold restrictions, providing more families with investment and financial options.

3.2. Innovation in Family Wealth Management by Financial Institutions

3.2.1. Embracing Internet Finance and Actively Developing WeChat Banking

Internet finance is a new industry that relies on the internet as a platform and is primarily manifested through third-party payments, financial intermediation, credit evaluation, online investment and financial management, and financial e-commerce. It combines the internet and the financial industry. Internet finance is based on computer hardware and network technology, utilizing technologies like the Internet of Things and cloud computing to analyze big data and improve user experience, creating a new financial model centered around customer needs. Through data transmission and sharing mechanisms based on the big data platforms of the internet, it effectively reduces information asymmetry in the financial industry, lowering investment risks and improving the efficiency of financing [6]. The rapid development of internet finance in recent years has increasingly covered middle- and low-end user groups, making financial services more inclusive. As a result, leveraging financial technology has become an indispensable channel for families, especially younger ones, to access banking services. Data shows that, in addition to mobile banking, self-service banking, and online banking, WeChat banking is gradually becoming a frequently used service among young people. Among households where the head is under 30, 30.8% most often use mobile banking, 21.9%

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frequently use ATMs or VTMs, 20.1% prefer online banking, and 17.3% regularly use WeChat banking. Thus, by capitalizing on internet development, actively promoting financial technology, and launching convenient online and WeChat banking services, banks can attract many young customers to participate in banking products and services, enriching family investment options and reducing systemic risks.

3.2.2. Expanding Financial Seminars and Other Market Activities to Enhance Value-Added Services

With the increase in family wealth, the quality of life for households has improved. Bank value-added activities and services have become a key attraction for families. Research shows that families have a high demand for bank activities related to health and wellness, as well as financial seminars featuring experts, and they have a preference for value-added services such as health checkups and vehicle maintenance. Specifically, the top three most anticipated bank activities are “health and wellness events”, “financial expert seminars”, and “parent-child or children's education activities”. As for value-added services, families particularly favor “health checkup services,” “car wash and maintenance services,” “dining coupons,” and “tourist attraction tickets.” Expanding bank value-added activities and services is not only an important way for banks to attract new customers and retain existing ones but also a crucial avenue for families to engage with banks and improve their financial management skills with the help of professional institutions [5].

3.3. The Development of Professional Family Wealth Management Institutions

Family Wealth Management Offices, also known as family offices, are institutions that provide comprehensive wealth management and family services for ultra-wealthy families, ensuring the long-term development of their assets aligns with family expectations and facilitates smooth intergenerational transfer and asset preservation and growth. According to the U.S. Family Office Association, family offices bring together experts from various fields, including financial advisors, lawyers, certified public accountants, investment managers, stockbrokers, insurance brokers, banks, and trust professionals, to serve one or multiple families. These experts help protect and pass on the wealth of these ultra-high-net-worth families while also acting as family stewards to meet their comprehensive, personalized needs. In Western wealth management markets, family offices are typically categorized into single-family offices and multi-family offices [7].

Since China's reform and opening-up, family wealth has grown rapidly. With the increasing demand for wealth management from high-net-worth families and even entire family units, professional institutions like family offices have gradually been introduced from the West into China.

Recently, there has been a surge of interest in wealth transfer among family businesses within the financial sector. Insurance companies, securities firms, and trust companies have all begun to establish family office services. Major securities firms such as China International Capital Corporation (CICC), CITIC Securities, CSC Financial, Guotai Junan Securities, China Galaxy Securities, Industrial Securities, China Merchants Securities, and GF Securities have entered the high-net-worth market, launching family office services. Insurance companies like CITIC Prudential, Manulife-Sinochem, Taikang Life, and Taiping Life have also introduced family office services, offering wealth management, family trusts, legal and tax consulting, and education planning. Insurance intermediaries, such as Fanhua Insurance Group, have also expanded into family office services in 2023 by launching high-end brands like "Fanhua Family Office." At the same time, under the pressure of industry transformation, trust companies have developed their own family office brands through tools such as family service trusts, insurance trusts, and family trusts [8].

Although family offices are in a rapid growth phase in China, there is still a gap in professionalism, comprehensiveness, and institutionalization compared to mature Western wealth management markets. Many needs of ultra-high-net-worth families in China have yet to be fully explored and met.

4. Conclusion

This article primarily explores the current state of family wealth management in China and its potential future development directions.

With the rapid growth of the Chinese economy, the wealth of Chinese families has been steadily increasing, leading to a rising demand for wealth management that poses challenges to China's wealth management market. For a long time, China's wealth management market has been characterized by offering a limited range of homogeneous financial products, failing to meet the diverse financial needs of Chinese families. Currently, under the strong influence of market demand, major financial institutions in China have initiated some degree of innovation and development in response to the growing demand for family wealth management, gradually moving toward providing more diversified and customized financial services. At the same time, financial institutions centered around family wealth management offices are emerging to serve ultra-high-net-worth clients. These developments signal that China's family wealth management market is entering a new stage.

This paper mainly uses the literature analysis method to study and discuss relevant issues. The conclusions drawn are more theoretical in nature and lack sufficient data support, which is an area for further improvement. Family offices in China started relatively late, and currently, there is a scarcity of related research literature. However, with the development of China's economy, it is foreseeable that family offices will become a key focus in future wealth management in China, as well as the focal point of related research.

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