Finance ... ...

Trust sector seeks foreign investments

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China's trust and investment companies feel encouraged by industry regulators' new policy stimulus aimed at attracting foreign strategic investors. Even so, the sector's rejuvenation is expected to take some time.

The new pledge by the China Banking Regulatory Commission (CBRC) will mainly serve as a confidence booster and a strategic goal for the nation's 59 trust companies, many of which shoulder both historic burdens and new market risks, said Clarence Kwan, national managing partner with Deloitte's Chinese Services Group.

For the industry, which is still reeling from recent shake-ups, rejuvenation can be a far-flung process, experts said.

And it may take time for foreign investors to adequately understand the industry and take concrete steps into the market.

"I don't expect an imminent rush of foreign investors into the trust industry, at least that would not happen with US-based institutions," Kwan said.

Foreign investors, he added, generally have little knowledge of China's trust and investment companies. But foreign investors know about the infamous scandal involving Guangdong International Trust and Investment Corp (GITIC) in the late 1990s.

The company, which went belly up in 1998, not only harmed the industry's image at that time, but it also served as a reminder of the potential risks for investors, Kwan said.

China's trust industry has begun recovering from a series of industry scandals, such as the one involving GITIC, that have been disclosed in recent years. The industry has been restructured five times since 1998.

Overhauls in the sector, after problematic cases such as GITIC, and a series of default payment scandals, have trimmed the number of trust companies from 239 to 59.

New re-registered trust companies have begun promoting trust plans, considering the huge market potential for alternative investment channels, in which a huge number of Chinese are zealous with their high-volume bank deposits.

But the current trust products are less complicated than many people had anticipated.

While most trust companies in China put their money in infrastructure and real estate projects, experts suggest there is room to improve the trust products.

The simplicity of trust products will likely hinder foreign investors' enthusiasm, as they have access to other investment options including banks, insurance and fund management companies.

Kwan said China's trust companies must build upon their strengths before they appeal to foreign investors.

Industry insiders understand CBRC's move is aimed more at the strategic change of better-performed trust companies, rather than an attempt to see an immediate injection of foreign capital in the trust industry.

"It will take some time before foreign investors are knowledgeable enough to invest in them," Clifford Ng, a Hong Kong-based partner with Preston Gates Ellis Solicitors.

According to the 10-year blueprint CBRC drafted for the trust industry, China's trust and investment companies are expected to complete the restructuring within five years, and the industry's total assets are expected to reach 640 billion yuan (US$77.10 billion), a level at which the trust industry once stood.

Based on that, in the second five years, trust assets will maintain a growth rate of 26.2 per cent each year, until the sector becomes the fourth pillar of the financial services industry.

Banking, securities and insurance are the other pillars.

An industry source said CBRC hopes the invitation of foreign strategic investment will boost the development of better performing trust companies, which will help brush poorly run trust companies out of the industry.

Usha C. V. Haley, professor of Management and International Business at US-based University of New Haven, said the reason China is encouraging strategic foreign investment in its trust industry is public confidence in the sector must be revived.

Reputable, professionally managed foreign investment may accelerate that process, she said.

Trust companies contribute to a vibrant and diverse financial sector in China, as well as offer alternative sources of financial funding than those obtained from the overstretched banks, said Haley, who is also the author of "The Chinese Tao of Business."

Wu Dayong, vice-president of China Credit Trust Co, echoes Haley's view.

Wu said China's trust industry is very new.

CBRC hopes foreign investors will bring more advanced trust products, management and operation systems to China.

"Money, itself, is not that important. Getting cash is not the aim," Wu said.

He said Liu Mingkang, CBRC's chairman, visited his company recently and stressed the importance of seeking foreign strategic investment.

Wu said foreign investment cannot only fine-tune trust companies' shareholding structures, but also inject new conceptions and ideas into trust companies that will help them improve their capability in designing trust plans and marketing their products.

China has too few trust products right now, said Wang Hao, a lawyer with the Beijing-based RayYin & Partners.

"Chinese trust companies need to change their heavy dependence on securities and real estate projects," she said.

Wang said trust innovation is of great importance, as it can lift the performance of trust and investment companies.

Trust innovation should be widely applied into pension and wealth management sectors for the nation's "new-rich" community, she added.

But vying with insurance and fund-management companies, trust companies do not have a competitive edge.

Kwan said although investors from North America and Europe will likely hold on to their investments at the beginning, investors from Taiwan, Hong Kong and Macao may be more interested in jumping on the bandwagon.

Last November, Hong Kong Mingli Co Ltd purchased more than 40 per cent of Shanghai Aijian Trust Co, which blazed a trail for overseas companies to invest in mainland trust companies.

There have been rumours Sun Hung Kai Co Ltd, a Hong Kong property giant, wants to acquire 14 per cent of Jixin Trust Co.

The deal, if completed, will become the second case of overseas investors holding shares in mainland trust companies.

While China's trust and investment companies have been urged to tighten their risk controls and management when undertaking rapid expansions of their businesses, the regulators will keep their pledge to allow well-managed trust companies more freedom to seek overseas strategic investments, experts said.

The industry source said trust companies will likely be given approval to allow overseas investors hold up to 50 per cent of the shares in local companies, a major policy shift.

The actual investment of dollars may be secondary to these trust companies 'importing' foreign expertise in trust administration, business development, asset management etc, said Kevin O'Connell, a US-based attorney who practices US and international business and corporate finance laws.

"This is all new to China, and they could truly benefit from this type of assistance and co-operation," said O'Connell.

Wang said It is already at critical stage to change the landscape of trust industry.

"The industry needs a shot in the arm."

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