

12th UNCTAD Debt Management Conference

Making debt work for development

18–20 November 2019

Palais des Nations, Geneva

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



Debt and Securitization of Development Finance: Useful Innovation or Recipe for more Toxic Debt

by

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*The views expressed are those of the author
and do not necessarily reflect the views of
UNCTAD.*





Securitisation in China: benefits and risks

Michael Chui,* 18 November 2019

Twelfth UNCTAD debt management conference: managing debt work for development

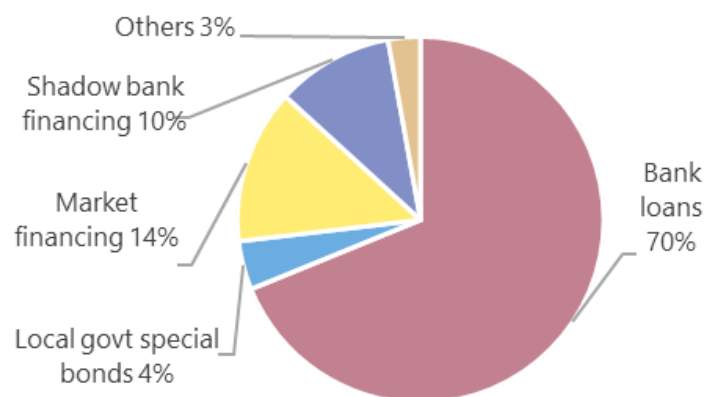
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Securitisation can be a double-edged sword

- Securitisation can strengthen the financial system:
 - Corporates can access the capital markets directly through securitising their assets;
 - Banks and financial companies can “free up” their balance sheets to undertake more lending; and
 - Investors are offered better diversification opportunities.
- But the Great Financial Crisis highlighted that securitisation, in some contexts (eg, through collateralised debt obligations (CDOs) investing in subprime mortgage-backed securities), could contribute to the build-up of systemic risks.

Potential benefits of securitisation for China are large due to its strong reliance on bank financing

Composition of financing for the real economy (September 2019)



- Aggregate financing measures how real economic activities are financed by various means
- The banking sector remains the most important source of financing in China
- Securitisation could help address the overreliance on the banking system

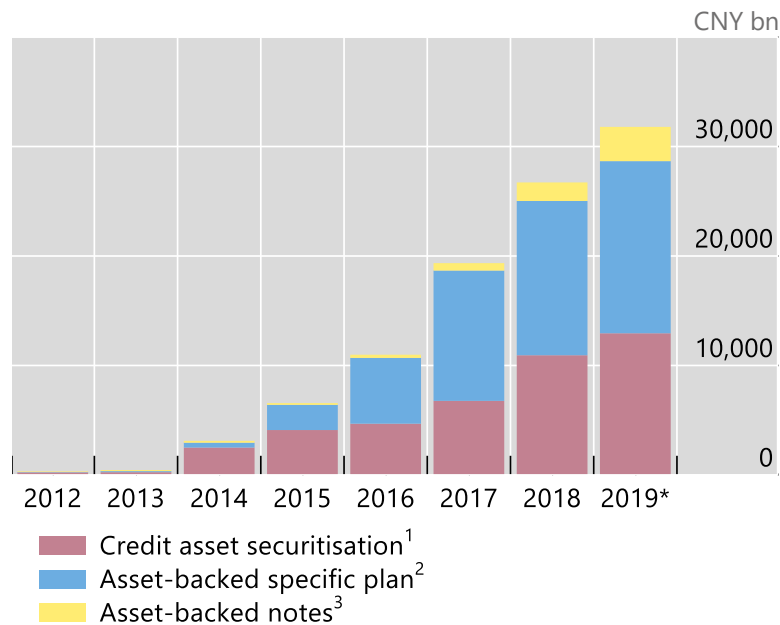
Market financing: corporate bonds and equities; Shadow bank financing: entrusted loans, trust loans and undiscounted banker acceptances.

Source: PBoC.

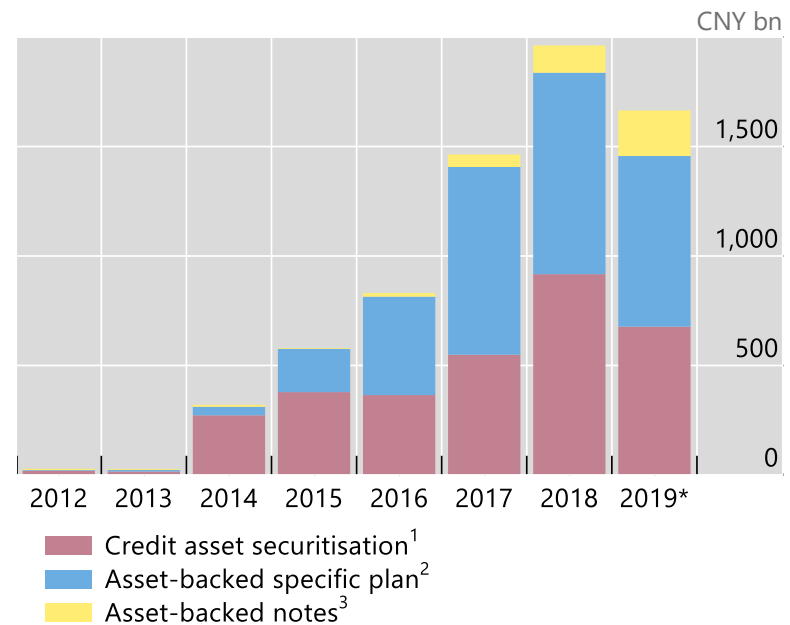
China has become the largest securitisation market in Asia and the second largest in the world

Securitisation in China

Outstanding balance



Gross issuance

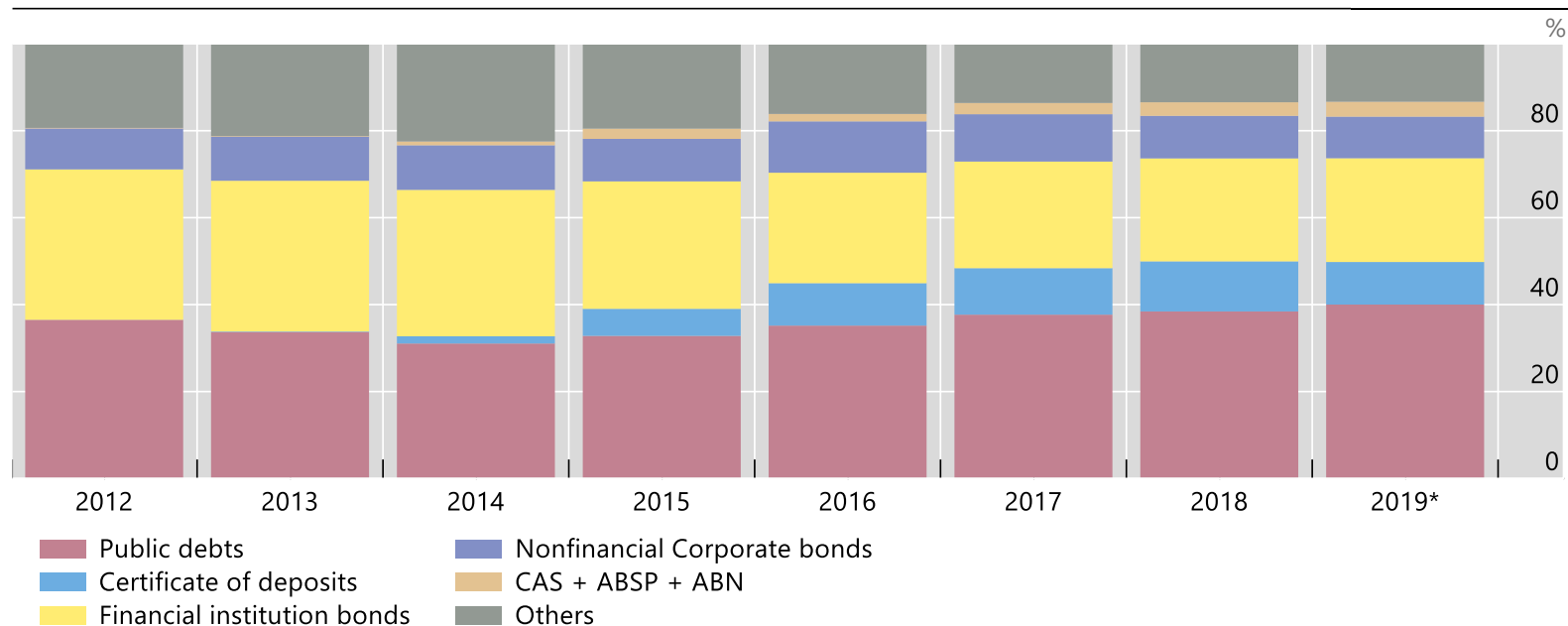


* Up to end-October. ¹ Issued by financial institutions, regulated by the People's Bank of China (PBoC) and China Banking and Insurance Regulatory Commission (CBIRC), and traded on the interbank bond market. ² Issued by other financial institutions and non-financial enterprises, regulated by the China Securities Regulatory Commission (CSRC) and traded on stock exchanges. ³ Issued by other financial institutions and non-financial enterprises, regulated by the National Association of Financial Market Institutional Investors (NAFMII), and traded on the interbank bond market.

Source: WIND.

Yet outstanding securitisation notes account for just 3.4% of the bond market in China ... room for strong growth to continue?

Composition of bond market in China (by amounts outstanding)



* Up to end-October.

Source: WIND.

The range of assets securitised grows rapidly

| Type of assets (2012) | % |
|--|--------------|
| Infrastructure charges | 4.7 |
| Others | 6.6 |
| Auto loans | 10.7 |
| Bill beneficiary rights | 20.3 |
| Corporate loans | 57.8 |
| <i>Total</i> | <i>100.0</i> |
| Total gross issuance: CNY 28 bn | |
| Source: WIND. | |

| Type of assets (2019) | % |
|---|--------------|
| Entrusted loans | 0.2 |
| PPPs (in the infrastructure sector) | 0.3 |
| Non-performing loans | 0.6 |
| Quasi-EITS | 0.8 |
| Commercial mortgage loans | 1.0 |
| Others | 1.3 |
| Factoring | 1.7 |
| Infrastructure charges | 1.7 |
| Consumer loans | 2.1 |
| Trust beneficiary rights | 3.0 |
| Corporate loans | 3.9 |
| Micro loans | 4.4 |
| Credit card debt | 5.5 |
| Bill beneficiary rights | 6.0 |
| Auto loans | 8.5 |
| Leasing receivables | 8.5 |
| Corporate debts | 12.7 |
| Receivables | 16.9 |
| Residential mortgage loans | 21.0 |
| <i>Total</i> | <i>100.0</i> |
| Total gross issuance (up to Oct): CNY 1,665 bn | |

Big technology firms (BigTech), micro loans and financial inclusion

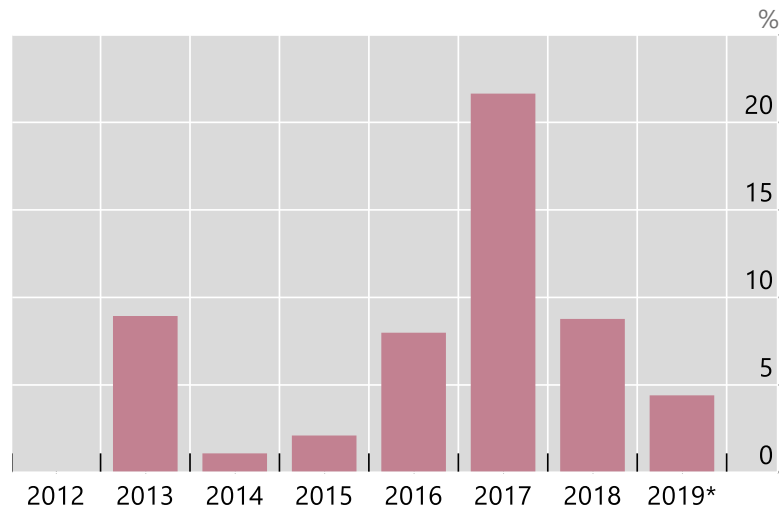
- BigTechs can play an important role in micro finance:
 - Leveraging on data collection to establish “credit scoring” system for people with no credit history;
 - Speedy loan approval, eg the so-called “310 model”, 3 minutes to apply, less than 1 second to approve and zero human intervention;¹
 - Reportedly low default risk.

¹ On 18 October 2012, an subsidiary of Alibaba managed to extend a total of CNY 100 million loans to “creditworthy” merchants in just 36 minutes during a promotion campaign. (http://finance.sina.com.cn/360desktop/money/bank/bank_hydt/20130709/111816062190.shtml)

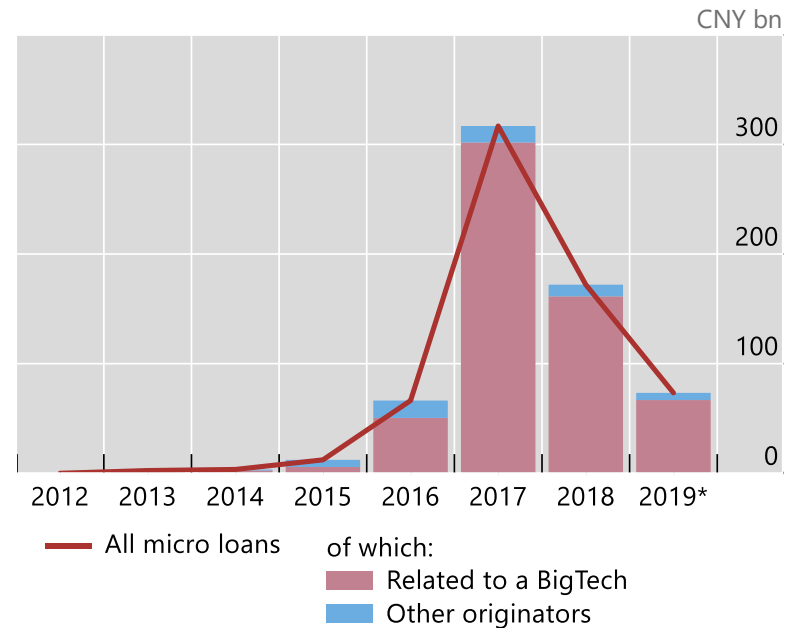
Securitisation could be an important funding source but is no replacement for adequate capital

Gross issuance of micro loan-backed notes in China

Share of micro loan backed notes in all securitisation notes



Gross issuance of micro loan-backed notes



* Up to end-October.

Source: WIND.

Chinese authorities tightened rules on micro financing following a sharp rise in peer-to-peer lending defaults in late 2017.



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Thank you!

