

Capstone Project Summary
Chinese Brokerage Market Research
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BACKGROUND

This project is significant for my client. This is the first time for him to be exposure to China market and try to provide the service for their customers in the future. Since China brokerage market is unique and much different from US/UK markets, my project would be helpful to get to know China brokerage market.

In the capstone project, I did two parts of analysis according to my client requirements. First, I did a quantitative analysis about China brokerage market to obtain a basic knowledge of its current situation. Then I selected the leading Chinese broker firm (CITIC Securities) to do an in-depth analysis, which can develop a review using the methodology provided by my client.

To analyze China brokerage market, I took a view of current China capital market, for example, China mainboard of stock market. The Main Board Market is composed of Shanghai Stock Exchange and Shenzhen Stock Exchange. In 2019, the market conditions of the A-share Shanghai and Shenzhen stock markets maintained an overall upward trend throughout the year.

After analyzing income composition of domestic securities companies from 2006 to 2019, my finding was the importance of income of brokerage went through roller coaster journey between 2006 and 2015. After that, the contribution rate kept decreasing to 23% in 2019. This is because brokerage commission rate continued to decline, falling below 0.03% for the first time in 2019, resulting in a further reduction in the proportion of brokerage business in revenue, which was a drop of 3 percentage points from the previous year. While almost all top 10 securities companies can see an increase percentage in 2019 and even the figures for two of top 10 securities companies were over 30%. Besides, I also collected the number of branches for top 10 China securities companies. Although CITIC Securities' branches increased by 151 in 2020, which could be the reason why the company had the highest revenue in 2020, the conclusion was that it does not mean that the more branches, the higher revenue.

CITIC Securities covers investment banking, wealth management, asset management, financial markets, and equity investment. According to the 2019 annual report of

CITIC Limited, brokerage contributed the biggest part of revenue in 2019, 39%, which can be the answer for one of my client's questions. The brokerage business is profitable for the CITIC Securities.

METHODOLOGY AND FINDINGS

The methodology for the review of CITIC Securities is to score it based on 9 aspects:

- Fees
- Account opening
- Deposit and withdrawal
- Trading platform
- Markets and products
- Research
- Customer service
- Education
- Safety

My sponsor and I finished this part together. The final score of CITIC Securities we gave was 4.4 out of 5. We also showed pros and cons for each aspect. The most important aspect is fee. We ranked Securities' fee levels as low, average or high based on how they compare to those of all reviewed brokers. Since the methodology is for measuring international brokers and the target customers of the review are international customers and China citizens who are interest in investing in international markets. Therefore, we decided to focus on calculating fees based on trading at CITIC Securities (HK). Customers are more likely to care about the commission fees since other fees charged when you trade stocks like Dividend tax, Stamp duty, Sales tax, etc. are charged by the governments. We calculated CITIC Securities commission fee of a \$2,000 trade and compared it with other two competitors. Besides, we also compared fees of fund, bond, options, and futures. The score we gave is 1.5 out of 5 due to the high fees charged.

We then opened two accounts to measure whether the process was free of charge, minimum deposit required, fully digital, user-friendly as well. The process was great for Chinese citizens, and we gave a full score 5. CITIC Securities charges no deposit or withdrawal fees, and these transactions are instant, which is a great plus. However, you can hold your cash only in CNY or HKD. The score was 3.8 out of 5.

Trading platforms include web, mobile and desktop trading platform. The CITIC Securities web trading platform is simple and easy to use, with a safe login process. However, the platform lacks price alerts customizability, and the number of order types is limited. The mobile trading platform is great, with a lot of functions, including price alerts and a useful chatbot. However, the range of order types is limited. CITIC Securities provides a desktop trading platform with many advanced features and customization options. That also means that it may be a bit too complex for beginners. The final score of trading platform was 4 out of 5.

CITIC Securities gives access to many asset classes, including stocks, ETFs, funds and bonds, but forex and CFDs are not available. You can also trade on markets outside of China and Hong Kong. We count the number of products and their markets based on both CITIC Securities' entities as a whole to compare with its competitors. The score was 3.6 out of 5.

Other aspects are CITIC Securities offers great research, including detailed fundamental data and high-quality news. However, the technical tools are limited, and the charting tools could be better. Customer service at CITIC Securities is exceptionally good across all channels, so you'll be in good hands when it comes to your broker-related questions. CITIC Securities has OK educational tools, including some videos and educational articles. However, there is no demo account available.

LESSONS I LEARNT

I met some issues during the data collecting. It was difficult to find all data I need for analyzing the China brokerage market, even some data released by China government was not consistent to the data from the annual reports. I learnt to how to write a complete broker review and most importantly, I figured out complex fee structure. Not only China broker fee structure, but also the international one. On the other hand, I also leant some lessons related to communication with my sponsor.