The Research on Development Model of Online Brokerage—Based on Case Study of Chinese and US Online Brokerage

YA LIU, XIU-MIN YUE and YAN-RU CHEN

ABSTRACT

Internet finance is the combination of internet and the financial industry, which now is promoting a profound change in the securities industry, and has drawn wide attention. This thesis starts with the shock of internet finance to the securities trader, puts forward to P Securities Company as a representative of the Chinese Internet brokerage development model, finally prospects the development trend of Internet securities firms and the countermeasures and suggestions. It has important theoretical and practical significance of providing reference for the transformation of securities companies into online brokerage, and the formulation of relevant policies.

RESEARCH BACKGROUND

On March 5th, 2015, Premier Keqiang Li for the first time put forward the "Internet +" action plan in the government work report. The plan is aimed to promote the healthy development of E-Industrial Internet and Internet finance, and guide the Internet companies to expand the international market by combining the mobile Internet, cloud computing, data, networking with other modern manufacturing industry. Under the influence of the Internet, traditional industries have been upgrading, so is the financial industry. After several years of development, China’s Internet finance has achieved innovation and breakthrough in many ways: In the Internet financial management, YuEBao, Licaitong and other Internet money funds significantly increased the profits for investors, with a management of assets close to one trillion; as for internet financing, Lufax and Yixin open up a credit loan financing channels for small and micro enterprises, while Ali-small-loans issues loans to small and micro enterprises relying on the accumulated large amounts of data from Taobao. At the same time it also brings enormous pressure to the traditional financial industry, which helps promote the traditional financial industry to improve service levels.

As an important part of the financial industry, brokerage industry actively promotes the Internet process in recent years. Huatai Securities Co. LTD launched the "online account three commissions" activities in 2013, the Horn blew the Internet brokerage. When the securities company actively promote the Internet, regulators began to guide
and regulate the Internet brokerage business at the same time. From April 2014 to now, the approval of the China Securities Regulatory Commission allow securities dealers, such as CITIC Securities and Pingan securities brokerages, to develop the Internet securities trading business, the securities firm was eligible for Internet securities business are shown in TABLE I. By March 2015, the number of brokerages with Internet securities trading business qualifications has reached 55, about 46% of the brokerage. The establishment of the Securities Committee of the securities industry will guide the transition of the Internet, specifications for the Internet development, accelerating the fusion of traditional financial securities industry and the Internet. In this context, studying the development model of Internet brokerage provide the reference for Internet securities companies formulating relevant policies in transition and regulators, and it is of great theoretical and practical significance.

TABLE I. THE TABLE OF SECURITIES COMPANIES WITH ELIGIBILITY FOR THE INTERNET SECURITY BUSINESS

<table>
<thead>
<tr>
<th>Approval time</th>
<th>Securities company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014.4.4</td>
<td>CITIC, PingAn, Galax, Guotai Junan, The Great Wall, Hua Chuang</td>
</tr>
<tr>
<td>2014.9.19</td>
<td>Guangfa, Haitong, Shenyin Wanguo, CITIC, Guosen, Industrial, Huatai, Wanlian</td>
</tr>
<tr>
<td>2014.11.24</td>
<td>Wealth, Choi Tong, Depon, Donghai, Fangzheng, Guojin, Guoyuan, Changjiang, CMB, CZB</td>
</tr>
<tr>
<td>2014.12.26</td>
<td>Huabao, Eastern, Nanjing, Southwest, Central Plain, Qilu, Anxin, HuaMin, First Capital, Dongxing, Pacific</td>
</tr>
<tr>
<td>2015.3.2</td>
<td>Wealth, Dongguan, Dongwu, Guohai, Guolian, Hengtai, HuaAn.Hualong, Huarong, CMBC, Shanxi, Century, Tianfeng, Tibet Tongxin, Xiangcai, Yintai, Zhongjin, CIC, Zhongsahn, China Post</td>
</tr>
</tbody>
</table>

IMPACT OF THE INTERNET FINANCE BROKER

Compared with the traditional finance, Internet finance is not just different in the media that used in financial operations, more important is that its participants are adhering to the "openness, equality, cooperation, sharing", the essence of the Internet, through mobile Internet tools, making financial operations more transparent, more participatory high, collaborate better, lower-cost, more convenient operation and a series of advantages. Facilitated by the Internet finance, brokerages face a huge impact.

1. To speed up reconstruction of the brokerage. Low cost is the Internet's biggest advantages, which have a huge impact on brokerage commission system. By 2013, the standard of brokerage business department commissions at the most parts of the country are more than 0.1%, but the online account of Simulink securities "treasure of Commission" fees are 0.025% at present.

2. Advancing finance and brokerage business specialization. In the age of the Internet, customers receive financial information anytime, balance treasure, ECR will upgrade customers' risk-free benefit to 4% above, Lu Jin and other P2P companies increase the expected returns from the fixed income financial products to 8%, these lead traditional brokerage financial business into a corner and vice versa advanced brokerage financial business professional upgrade.

3. Weakening the pricing power of brokerage dealer in financial intermediation. Over the years, brokerage dealer has a great speaking right in the IPO, directional, bond issues and other business assets-side pricing, but with the development of the Internet, companies bypass the brokerage dealer directly through the Internet IPO, private

---

1The data is from: SAC Bulletin on list of Internet securities trading business for securities firms.
placement, and issuing bonds will become possible, Google caring out stock which put on sale through auctions in 2004 is a good case.

4. To promote brokerage restructure revenue. In the traditional brokerage industry, brokerage revenues account for half of the brokers. In the Internet age, the brokerage business will decrease the proportion of income, but the proprietary trading, investment banking revenue will continue to rise. Income from brokerage business structure, the transaction fee revenues will continue to decline, replaced by wealth management income and interest income.

CHINESE INTERNET BROKERAGE DEVELOPMENT PATTERN--TAKE P SECURITIES COMPANY AS AN EXAMPLE

In reference to the basement of the United States Internet brokerage model of development, the Chinese brokerage accelerated the process in recent two years, forming a unique development model of Chinese Internet brokers. P Securities Corporation (hereinafter referred to as P) is one of the first Internet stock brokerage business qualifications, relying on the background of the group, the integration of various resources, leading the Internet brokerage process. Studying on development model for P, it is of great significance for a discussion on development mode of Internet brokers in China.

P Company Business

P company is a stock company established in the late 90's, owning the futures company, equity investment company and its overseas subsidiaries, scoping covers brokerage, investment banking, information management, and all business. By the end of 2014, P’s brokerage sales department beyond 44, clients beyond million, total assets beyond 300 billion, margin size exceeded. P provide personalized financial services (p company business strategy transition as shown in Figure1). P company established the "Internet brokerage" business objectives in 2015, a complete set of "mass", "diversity management" strategy (p company's development model as shown in Figure 2).

![Figure 1. Strategy transformation for P company business.](image)

![Figure 2. P company patterns.](image)
P Company's "Massive" Policy

Internet brokerages' core strengths lie in using Internet tools to attract customers, expand trading assets, "mass" is magnified exponentially customer strategy.

Backstage is the Foundation

Mass means that the number of customers need dozens of times in explosive growth, opening link is the primary problem to be solved. To do this, P has taken a number of measures: first, P consolidates back-office IT resources, developing the PC-end independent account, transfer software, and mobile terminal independent account, transfer APP. Second, P newly created operational support team, according to independent accounts of a customer for the video testimony, shorten the time of opening an account of. Finally, P consolidated server resources, broaden the trading channel, provides a stable channel for massive expansion of customers.

Online and offline interaction is the key

P-mass is a systems company, it is not enough to rely on line unilaterally, requiring online interaction. On one hand, online provides flow inlet, through extremely low Commission strategy to attract customers; on the other hand, offline sales department assist online customer with account follow-up services.

Spirit of the Internet to "play" marketing

Compared with Internet companies, traditional brokers lack "play" spirit of the Internet, while P is good use of mass strategies to "play" the spirit of the Internet. First, P launched a series of marketing activities which cater to Internet users tastes. Second, P’s all staff through social networking tools, like micro, micro-blogging, QQ, to broadcast. Finally, P actively expanding external channels, promoting activities with Internet companies, as sending members with PPTV, launching account with flush bank, achieve win-win results.

Customer experience is the core

Internet business model is doomed to treat customer experience as the core, P "massive" policy is no exception. Customers only need to provide two out of 10,000 in ultra-low commissions, and you can enjoy consistent, high-speed trading channel, professional, rich and rewarding huge amounts of information, for the vast majority of customers is a good experience.

P "Diversity Management" Strategy

Massive policy greatly increased the number of customers of the company, P launched the "diversity management" strategy to provide customers with differentiated products and services, improving the company's revenue.

Customer-Classified Management

P corporate customers divided into regular customers, professional customers, and social networking customers, providing intelligent asset allocation services, professional stock market investment advisory services, and social services. P charged a few of information costs; professional investment consultant service provides customers with professional recommended unit of value-added service; P charged high investment consultant Trading Commission; social stock service is refers to Sun single products service, P charge for the documentary fee.

Classified management of the account

P corporate customer accounts into base account, General account and premium account in three layers (p company account classifications, see Figure 3). Base account using low risk and high liquidity products to attract customers by IMF; general account
is private stock accounts, using low domestic helpers to attract customers, using investment service to earn extra commissions, by financial products earning fees; premium account is a credit account, using distribution services to earn considerable interest margin.

![Product classification management diagram]

Figure 3. P’s account classification chart.

**Products classification management**

P products divided into professional products, radical products, solid products in three types. Professional type of products refers to company launching a programmed trading strategy, providing decision support for super high net customer; radical type products refers to investment two level market of financial products, such as stock type Fund, and index type Fund, which can provides General customer with win market average returns of service.

P got significant effect by moving the company's Internet broker "mass" and "diversity management" strategy in a quarter of 2015, the number of new customers increasing nearly million average daily, new customers assets quickly, market share continuing to increase, impact of the Internet brokerage appeared gradually.

**DEVELOPMENT AND COUNTERMEASURES OF INTERNET BROKERAGE**

Currently the Internet broker has just started, and all parties actively explore the stones. Different from traditional brokers, Internet brokerage should focused on services the public investors, and investment behavior of the general public will face the development trends of social, scene and simplification. 1. Social investment behavior. For the general public, due to the lack of financial knowledge, there is no professional investment consultants carrying out investment guide, it will need a platform to get investment information and support investment decisions, the platform is the social platform. From the stock market simulation competition in 2014, It can be predicted that more and more investors to obtain investment information through micro, micro-blog, QQ and other social tools, assisting in investment decisions. 2. Simplification of investment behavior. Financial product design is relatively complex, and the contract is onerous, because the general public lack of expertise, it is hard to understand contracts and lack of clear recognition of product risk. For Internet brokerage, because it cannot provide enough offline support, destined to sale most products through online marketing, which means to provide simple products to meet the needs of the general public.
Based on the above analysis, in order to promote the healthy development of Internet brokerages, from, regulators and securities firms, the two levels of recommendations:

Regulators’ recommendations

Brokers on the Internet is a new thing for China, because the market is not mature enough, industry standards need to be clear, relevant laws and regulations are not yet satisfactory, restricting the healthy development of the Internet brokerages. Therefore, there need to do the following three aspects: Further perfect the system construction. Regulators should publish relevant system, encourage qualified brokers restructure, come out of the path of Internet broker which has its own characteristics. Build efficient supervision systems. Regulatory agencies should cooperate closely with the Professional Committee of Internet security, efficient collaboration, and orderly regulation. Among them, the regulators will focus on securities companies risk management, network security, and appropriate management, etc.; Organize Internet brokerage training. Internet brokerage firms has a high level of the talent requirement, and the talent is not only necessary to understand the operation and management of the financial sector, but also have thought of the Internet. So only by brokerages introducing Internet industry talent is not enough, still need to target professional training courses and seminars to improve the quality of existing securities practitioners.

Securities company’s recommendations

On the occasion of the tide sweeping the Internet, securities companies should see a broad market space at this trend, with a more open mind to embrace the Internet, needing to do the following specifically: Perfect the construction of the system of national accounts. Established difference layer account system; Build customer service platform. The site is a very good service as Internet brokerage platform; Network marketing strategy. Traditional marketing strategy of brokerage in Internet times will be low effect, it must need speed. Building a business intelligence system. In the Internet age, using large data technology for customer needs analysis in order to achieve precision marketing is a trend. Through the business intelligence system, brokers can analysis, forecasting customer potential for consumption and trade through trading systems for customer data, so as to accurately grasp the customer's financial needs and other financial needs. Specifically, by data mining, to establish customer group management system, to track customers’ migration movements, to form customer base maintenance policy. Organizing professional team for precision marketing on this basis, it will greatly enhance the efficiency of sales, also can be a good customer service experience.

ACKNOWLEDGEMENT

This research was supported by MOE (Ministry of Education in China) Project of Humanities and Social Sciences under Grant “15YJC630080”.

493
REFERENCES