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THE IMPACT OF THE NEW ASSET MANAGEMENT REGULATION ON BANK STABILITY RISK

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Abstract: The Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (the New Asset Management Regulation) jointly issued by the People's Bank of China and four other departments in April 2018 effectively cuts off the risk transmission paths of the shadow banking business, but it also poses a challenge to the conduct of business of commercial banks. This paper selects the annual panel data of 42 listed banks from 2013 to 2022, and analyzes the impact of the policy shock of the new regulation on bank stability risk by double difference model (DID). The results show that the introduction of the new regulation on capital management significantly reduces the stability risk of banks; when banks have lower capital adequacy and face more risks, the greater the positive impact of the new regulation on them.
Keywords: New asset management regulation; Commercial banks; Stability risk; Capital adequacy ratio

1 INTRODUCTION

Since 2012, the asset management sector has seen rapid growth, with products like bank wealth management reaching a scale of one trillion dollars, and their role in the financial system becoming increasingly prominent. Meanwhile, the prevalence of channel business has made mixed operations a more notable feature of the financial market. The emergence of cross-market and cross-institutional financial products has led to frequent issues such as rigid redemption and multi-layer nesting. Additionally, asset management business has caused a significant increase in risk-free interest rates, which deviates from the principle of matching risk and return, elevates systemic risks in the financial sector, and goes against the fundamental role of financial institutions in promoting industrial development. In this context, in April 2018, the Central Bank and other relevant departments jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions.The implementation of these new regulations helps mitigate the excessive risks in the asset management business.

Currently, China's financial system remains largely dependent on indirect financing, with commercial banks playing a pivotal role. These banks are not only central to the credit transmission mechanism but also serve as the largest participants in the asset management market. On the asset side, banks primarily operate through financial products, which can be classified—based on accounting treatment—into on-balance-sheet and off-balance-sheet categories.

On-balance-sheet financial products are typically subject to stricter regulatory oversight, as their risks are retained within the bank's formal financial structure. In contrast, off-balance-sheet products are generally structured so that investment risk and returns are borne entirely by investors. As a result, regulatory scrutiny over off-balance-sheet activities tends to be less rigorous. However, in practice, competitive pressures in the banking industry have led institutions to implicitly guarantee returns. To attract more capital, banks often compensate investors for losses using their own resources, thereby creating what is known as "rigid redemption" or "rigid payment."

This behavior effectively reintroduces risk exposure from off-balance-sheet operations back onto the banks' financial positions, undermining the intended risk segregation. The internalization of these risks poses significant threats to the stability of the financial system.

Furthermore, in order to expand their asset management business, banks frequently collaborate with non-bank financial institutions to raise capital, which is predominantly allocated to non-standard credit assets. These assets—such as those tied to infrastructure development or real estate—are characterized by long maturity periods, low transparency, and poor liquidity. Due to the lack of standardized trading mechanisms and limited disclosure, such investments cannot be easily liquidated in times of stress.

Consequently, this structural illiquidity increases the vulnerability of financial institutions to cash flow mismatches and redemption pressures. When compounded across the system, these weaknesses can evolve into systemic liquidity crises, posing broader risks to financial stability.

In response to these problems, the new asset management regulations have set forth requirements such as restricting rigid payment on the liability side, curbing non-standard business on the asset side, and limiting financial institutions' channel operations and multi-layer nesting. This study adopts the DID model to assess how the newly introduced regulations influence bank risk, treating the policy as an external shock and examining the variation in its effects across different banks.The innovation out of this paper is reflected in the following points. First, the existing literature has inconsistent views on the impact of the new regulation on bank stability risk, in view of this, this paper collects data from 2013-2022 and uses the double-difference-in-differences (DID) method to analyze and explore the impact of the

new regulation on bank stability risk. Second, this paper finds that the impact of the new capital management regulations on banks is heterogeneous and has a greater impact on banks with lower capital adequacy ratios.

2 LITERATURE REVIEW AND RESEARCH HYPOTHESES

2.1 Literature Review

The introduction of the new asset management regulations aims to incorporate the asset management operations of financial institutions into a unified regulatory framework, thereby addressing loopholes in financial supervision and curbing regulatory arbitrage. These new rules adopt a "penetrating supervision" approach, tracing multi-layered nested products both upward to identify ultimate investors and downward to uncover underlying assets. Nonetheless, the regulatory constraints placed on shadow banking activities have also introduced new risks to the stability of commercial banks.

On the liability side, the updated regulations impose tighter controls on banks' funding sources. Specifically, investors are now classified into two groups: the general public and qualified investors. By subjecting shadow banking participants to formal regulation, the scope for banks to attract funds is narrowed, potentially affecting their liquidity positions [1]. Prior to the enforcement of these rules, wealth management products often offered high yields and principal guarantees, making them a more attractive option than low-return deposit products. With the new regulation tightening the eligibility criteria for qualified investors based on risk tolerance and financial capacity, banks may find it harder to attract funds. To address potential liquidity shortfalls, banks could be forced to liquidate assets, increasing the likelihood of cross-market fund flows and amplifying systemic risk within the banking sector [2].

On the asset side, Under the new asset management regulations, banks are no longer permitted to engage in capital pooling practices or implement maturity mismatches, compelling a fundamental shift away from their traditional business models and making transformation inevitable [3]. Historically, much of the shadow banking activity conducted by commercial banks has relied on pooling funds and investing in credit bonds through mismatched maturities. The ban on such mismatches severely disrupts the viability of the capital pooling structure, which had previously been a core feature of their operations, thereby necessitating a redesign of legacy shadow banking practices. Currently, bank-issued financial products are predominantly structured as expected return types, while net asset value (NAV)-based products remain limited in scale. The explicit prohibition of expected return financial instruments under the new framework presents significant challenges for banks in meeting long-term non-standard asset allocation demands.

The transition between legacy and newly introduced financial products presents significant challenges, heightening the liquidity risk faced by commercial banks. While the revised asset management regulations may initially disrupt traditional banking models and increase operational instability, they offer long-term benefits by clearly prohibiting practices such as capital pooling, rigid payment guarantees, expected yield commitments, and channel-based operations. These regulatory changes help redirect funds from speculative or non-productive uses to the real economy, mitigate cross-sectoral risk transmission, and strengthen the financial system's overall resilience. According to Fang Xianming and Chen Chu [4], the inherent complexity of shadow banking—characterized by overlapping markets and institutions—substantially raises the likelihood of systemic risk contagion. The new asset management rules aim to break these interconnections, thereby minimizing systemic correlations and enhancing the stability of commercial banks. Additionally, Duan Xisheng [5] argues that these regulatory updates mark the beginning of a new era in comprehensive asset management, where the evolving supervisory framework encourages industry-wide standardization and realigns asset management practices with their foundational purposes. This transformation is expected to foster sustainable growth in banks' asset management operations.

2.2 Theoretical Hypotheses

In conclusion, the new asset management regulations exhibit a dual impact on the stability risk faced by banks. On one hand, they heighten risk by limiting banks' ability to attract and utilize funds; on the other, they help mitigate systemic risk by curbing shadow banking activities and banning nested financial operations. Despite this dual nature, existing literature has yet to clearly assess how these regulations influence the overall stability of commercial banks. This paper contends that, while the implementation of the new regulatory framework initially exposed banks to liquidity constraints and transformation pressures, its long-term effect has been a reduction in stability risk. Now, five years after the regulations were introduced, most banks have moved beyond the initial adjustment phase. Based on this context, the paper proposes the following hypotheses:

H1: The implementation of the new regulations on asset management will have an impact on the stability risk of the bank .

Compared with state-owned banks, joint-stock banks face relatively looser regulatory supervision and have experienced faster growth in their shadow banking activities. Since the new regulations explicitly ban practices such as capital pooling, multi-layer nesting, and shadow banking, it is expected that these rules will exert a stronger influence on joint-stock banks. Consequently, the reduction in risk is anticipated to be more pronounced for joint-stock banks than for state-owned banks. Based on this reasoning, the following hypothesis is proposed:

H2: The arrival of the new regulations on capital management makes the stability risk of joint-stock banks will fall more than state-owned commercial banks.

3 BENCHMARK MODEL, DATA AND VARIABLE DESCRIPTION

3.1 Benchmark Model

To examine how the new asset management regulations affect listed banks, this study employs DID approach, treating the introduction of these regulations as a quasi-natural experiment. The DID model is a common and effective tool for evaluating policy impacts, particularly because it helps mitigate endogeneity issues. Following the DID methodology, the model in this paper is specified as follows:

$$Y_{i,\ t} = \beta_0 + \beta_1 \cdot Treat_i \times Post_t + \sum_{i=0}^{n} X_i \cdot \theta + \lambda_i + \sigma_t + \varepsilon_{i,\ t} \quad (1)$$

Y_{it} is the stability risk indicator of bank i in period t, denoted by Z-score. Treat is a treatment group dummy variable with Treat=1 if it is a joint-stock bank, and Treat=0 if it is a state-owned commercial bank. Post is a policy dummy variable with the implementation time of the new regulation policy on capital management set to 2018. The coefficient β_1 of the cross-multiplier term is the policy impact effect. $\sum_{i=0}^{n} X_i$ is a set of control variables. In order to exclude the influence of other omitted variables, this paper adds individual fixed effects $\varepsilon_{i,\ t}$ and time fixed effects σ_t

3.2 Sample Selection

This study selects 42 A-share listed banks (including those dual-listed in Hong Kong) as the research sample and constructs a panel dataset spanning from 2013 to 2022. Financial indicators and wealth management product data are sourced from Wind, the CSMAR database, and the banks' annual reports, while macroeconomic variables are obtained from the National Bureau of Statistics (NBS). Two main criteria guided the sample selection. First, listed banks are chosen due to their standardized disclosure practices and the completeness of their annual data, which ensures the availability of key variables necessary for empirical analysis. As a result, 42 A-share listed banks were selected. By the end of 2022, these banks collectively accounted for 76.72% of total banking assets in China, offering strong industry representativeness. The sample includes six major state-owned commercial banks—namely, Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of Communications, and Postal Savings Bank—and 36 joint-stock commercial banks such as Industrial Bank, China Merchants Bank, Huaxia Bank, Minsheng Bank, CITIC Bank, and Zheshang Bank. Secondly, in view of the transitional phase of the new asset management rules, this study incorporates the most recent data available up to 2022 to enhance empirical robustness. To ensure sample adequacy and continuity, a decade-long panel dataset from 2013 to 2022 is utilized.

3.3 Variable Description

Explanatory Variable:To capture the stability risk of individual banks, this study employs the Z-score as the primary indicator. A higher Z-score (Z-value) reflects lower risk levels and indicates greater operational stability for the bank.
Core Explanatory Variable:Within the framework of the Difference-in-Differences (DID) model, the key explanatory variable is defined as the interaction term between a treatment group indicator and a policy implementation dummy, representing the policy's differential impact on affected banks.
Control Variables:Drawing on existing literature, this paper incorporates a range of control variables. These include bank-specific indicators such as return on assets (ROA), non-performing loan ratio, loan-to-deposit ratio (LDR), net interest margin (NIM), and cost-to-income ratio. Additionally, macroeconomic conditions are controlled for using the M2 money supply growth rate.

4 EMPIRICAL RESULTS

4.1 Results of Empirical Analysis

According to Table 1, the coefficient of the interaction term $Treat_i \times Post_t$ is always significantly negative regardless of whether the control variables are added or not, which verifies hypothesis H2: the introduction of the new regulations on capital management makes the stability risk of the joint-stock commercial banks decrease significantly compared with that of the large state-owned banks.The results also validated the hypothesis H1.

Table 1 Benchmark Regression Results

	(1)	(2)
VARIABLES	Z-score	Z-score
$Treat_i \times Post_t$	23.89	24.47
	(10.20)	(10.63)
ROA		13.00

		(21.54)
NIM		-3.564
		(8.868)
CIR		-0.507
		(0.789)
NPL		-0.492
		(9.037)
LDR		-0.0799
		(0.337)
M2		0.550
		(1.413)
Constant	15.49	32.95
	(6.135)	(42.94)
Observations	459	440
R-squared	0.094	0.099
Company FE	YES	YES
Year FE	YES	YES

Standard errors in parentheses
* p<0.01, p<0.05, * p<0.1

4.2 Robustness Test-Parallel Trend Test

The DID model needs to satisfy the parallel trend assumption, i.e., the development trend of the treatment group and the control group is the same when there is no policy intervention. In this paper, four years before and after the implementation of the policy are selected as samples, with 2018 as the benchmark, pre_* as the pre-implementation year, current as 2018, post_* as the post-implementation year, 2015-2013 as pre_*3, and 2021-2022 as post_4, and pre_1 is removed to avoid multicollinearity. Figure 1 indicates that prior to the implementation of the new capital management regulations, the Z-score was not statistically significant, suggesting that the treatment and control groups exhibited similar development trends, thereby meeting the parallel trend assumption. After the policy was introduced, the Z-score coefficient turned positive and statistically significant.

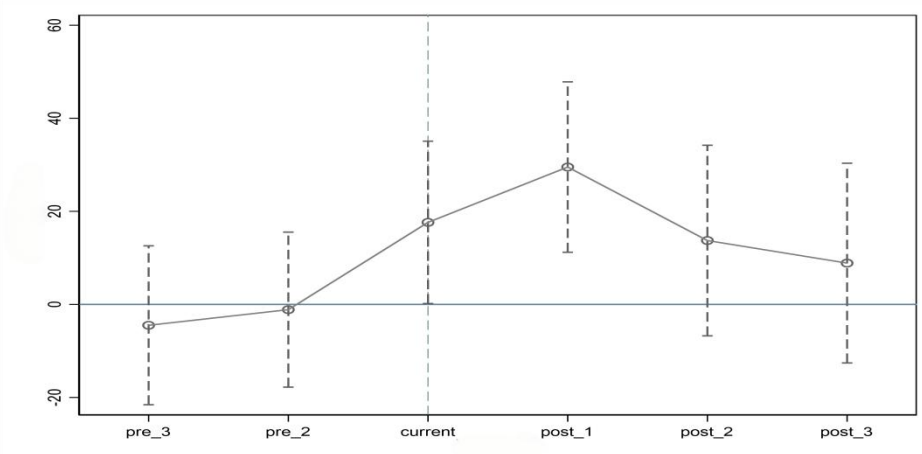

Figure 1 Parallel Trend Test

4.3 PSM-DID Test

To strengthen the analysis, this research utilizes the Propensity Score Matching (PSM) technique, adopting the approach from Shi Dachan et al. (2018) ¥[6]. A logit regression estimates the policy indicator and control variables, facilitating the matching of samples with similar propensity scores. This process enables a comparison between treatment and control groups to determine if significant differences are present. As shown in Table 3, the matching results reveal no statistically significant differences between the groups, validating the combined PSM-DID methodology. Furthermore, the regression results in Table 2 align with previous outcomes, confirming the robustness of the empirical findings.

Table 2 Robustness Test

Variable Matched	Treated （mean）	Control （mean）	%reduct (%bias)	%reduct (|bias|)	t	p>t	V(T)/V(C)
ROA U	0.940	0.983	-18.100		-1.410	0.159	0.79*
M	0.966	0.982	-6.700	62.900	-0.830	0.405	1.050
NIM U	2.405	2.255	32.800		2.220	0.027	1.94*
M	2.298	2.280	3.8	88.400	0.470	0.637	1.91*
CIR U	30.306	33.915	-39.800		-4.370	0.000	0.14*
M	31.160	30.596	6.2	84.400	0.880	0.380	0.22*
NPL U	1.323	1.298	6.4		0.460	0.645	1.27*
M	1.324	1.304	5.3	17.400	0.570	0.566	1.63*
LDR U	73.257	69.404	26.800		2.080	0.038	0.830
M	70.532	70.362	1.2	95.600	0.140	0.892	0.67*
M2 U	9.946	9.655	8.6		0.680	0.498	0.75*
M	9.974	9.239	21.700	-152.100	2.330	0.020	0.76*

* if variance ratio outside [0.82; 1.23] for U and [0.78; 1.29] for M

In order to avoid the problem of sample selection bias, this paper uses the PSM office to process the samples. Using the processed samples to regress again, the regression results of the PSM-screened samples are shown in Table 3, and the regression results of the screened samples remain significant[7-8].

Table 3 PSM-DID Regression Results

	(2)
VARIABLES	z1
$Treat_i \times Post_t$	21.31*
	(12.58)
control variable	YES
Observations	302
R-squared	0.105
Number of id2	42
Company FE	YES
Year FE	YES

5 HETEROGENEITY ANALYSIS

The benchmark model above estimates the average effect of the new regulation on bank stability risk, but does not capture differences in bank characteristics. This paper further examines the heterogeneous effects of these characteristics on stability. Using the capital adequacy ratio as a dividing criterion to reflect the loss-bearing capacity of banks' own capital, the sample is divided into two groups, above and below the median, and regressed separately, and the results are shown in Table 4. The regressions show that banks with lower capital adequacy ratios are more affected by the policy and the stability risk decreases after the implementation; banks with higher capital adequacy ratios also experience a decrease in risk, but it is not significant[9].

Table 4 Heterogeneity Analysis Regression Results

	(1)	(3)
VARIABLES	Crar>median	Crar<median
$Treat_i \times Post_t$	10.29	26.62*
	(14.60)	(15.52)
ROA	-3.011	30.02
	(33.45)	(37.23)
NIM	0.902	-5.876
	(13.46)	(14.34)
CIR	-0.196	-0.385
	(0.944)	(1.393)
NPL	9.176	-4.125
	(18.17)	(14.80)

LDR	0.535	-0.381
	(0.503)	(0.510)
M2	0.146	2.217
Constant	-19.87	44.45
	(56.40)	(79.18)
Observations	168	272
R-squared	0.090	0.126
Number of id2	38	39
Company FE	YES	YES
Year FE	YES	YES

6 CONCLUSIONS AND RECOMMENDATIONS

In this paper, we select the panel data of 42 listed banks from 2010 to 2022, and analyze the impact of the new regulation on banks' stability risk by constructing a double difference model (DID)[10]. The conclusions are as follows.
Firstly, the new asset management regulations substantially lower banks' stability risk by limiting fundamental characteristics of their asset management operations, including capital pooling, guaranteed returns, rigid payments, public fundraising, and channeling activities—all of which tend to increase banks' inherent stability risks.
Secondly, the impact of the new regulations on different banks is heterogeneous, with a greater impact on banks with lower capital adequacy ratios, which can reduce their stability risk to a greater extent.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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