3. Financial Investment Industry

Junghan Koo (jhkoo@kif.re.kr)

Assets

Securities firms’ assets increased by 11.2% to KRW260 trillion during Q4 2012, up from KRW234 trillion a year earlier (Figure Ⅱ.18). Despite the asset growth from the previous year, the growth rate has tapered off due to the uncertainties lingering on the financial markets. Especially foreign securities firms’ assets related to derivatives decreased significantly.

The ratio of securities firms’ assets to commercial banks’ assets was 21.3%, an increase of 1.9%p from Q4 2011 (19.4%). While commercial banks’ assets grew slightly, securities firms’ assets increased much more than that of commercial banks.

The HHI (market concentration index) of securities firms was 307 while the index of commercial banks was 1,390. The index increased from 292 at the end of 2011.

AUM (Assets under Management) of asset management companies increased by 10.7% to KRW310 trillion during Q4 2012, up from KRW280 trillion a year earlier (Figure Ⅱ.19). The size of equity funds has decreased from March 2012 due to the increased volatility in the stock market. However, the size of bond-type securities, derivatives, and MMF (Money Market Fund) grew significantly due to the expectation of lower interest rates.

Profitability

During Q4 2012, securities firms’ profits deteriorated further, decreased by 74% over the same period of the previous year to KRW186 billion (Figure Ⅱ.20). Despite securities firms’ effort to reduce costs by branch and staff cutback, it could not cover the huge brokerage commissions income reduction from the decreased trading volume. As long as the brokerage
commissions income remains as the main profit making source, this phenomenon is likely to be maintained for a while.

During Q4 2012, asset management companies’ profits increased by 8.3% over the same period of the previous year to KRW118.9 billion (Figure II.21). This was mainly due to the increase of AUM in bond funds, and more needs for investment advisory services and discretionary investment management services. In addition, their operation costs went down, compared to those of the period of the previous year, due to the lowered interest rates. However, AUM of equity funds decreased due to the higher volatility in stock market, and as a result, asset management companies’ profits remained in low level. It is interesting that profit polarization among them deepened. The highest 10 asset management companies’ profits took 85.6% of the total profits in the industry. 30 asset management companies out of total 84 companies recorded net loss during Q4.

**Capital Adequacy**

The net capital ratio (net capital over total risk, an indicator of the capital adequacy of securities companies) of securities firms decreased 69%p from 568% in Q4 of 2011 to 499% in Q4 2012 (Figure II.22). Although the net operating capital decreased by 2.6% from the previous year, risks increased by 10.9% over the same period. The profit deterioration in their main businesses, such as brokerage, interest-bearing business, new securities selling, worsened securities firms’ net operating capital.

On the other hand, the net capital ratio of asset management companies increased 71%p from 484% in Q4 of 2011 to 555% in Q4 2012 (Figure II.23). This is mainly due to decrease of risks while net operating capital remained about the same.

**Outlook**

In Q2 2013, the assets of financial investment