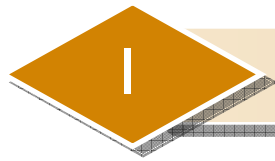




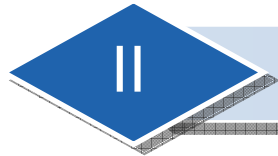
China's financial services and postal savings bank supervision

Xiao Huarong
Banking Supervision Department 4
China Banking Regulatory Commission

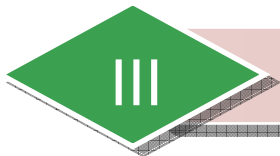
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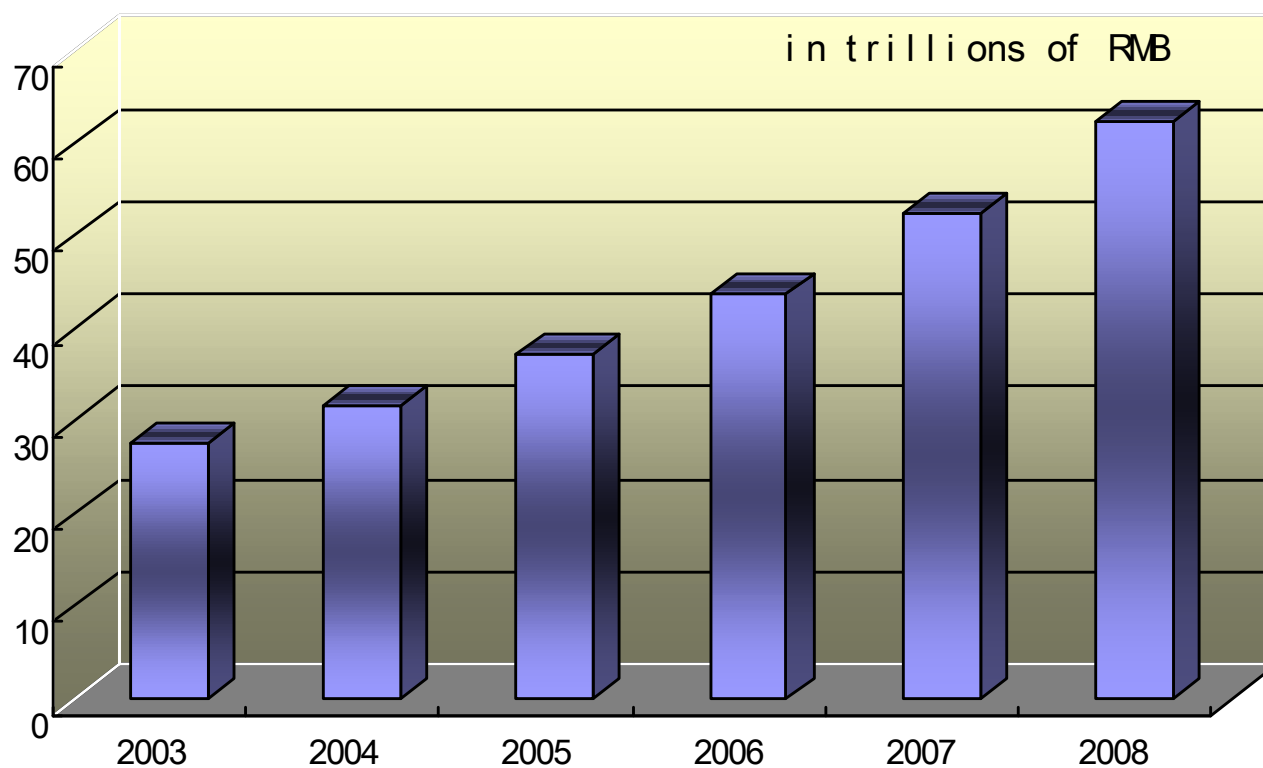
I. Development and services of China's banking sector

i. Brief Introduction

- ❖ **In recent years, great changes have taken place in China's banking sector, which transformed from an industry lack of competition to one with scientific and orderly development, from an highly risky industry to one with well-performed risk control, and achieved historic breakthroughs in systematic restructuring.**

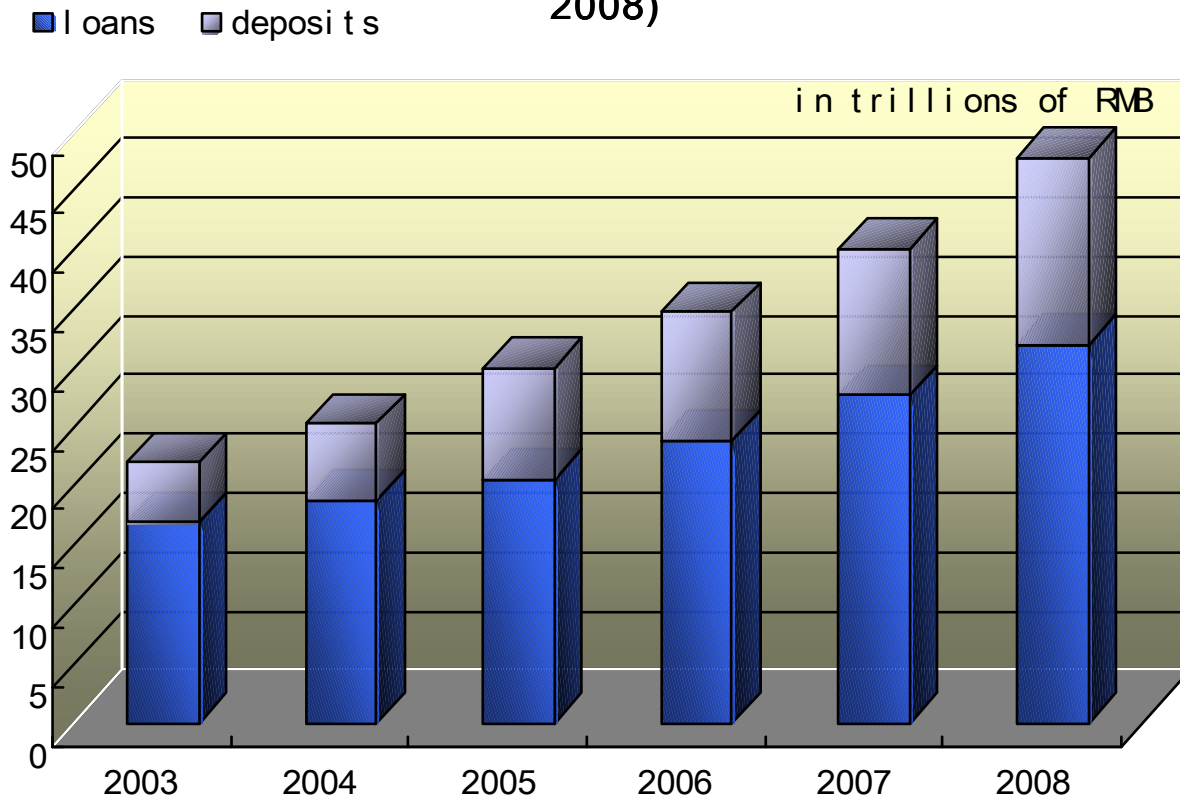
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- ❖ **In June 2009, five major banks in China rank among the global top twenty banks in terms of market value, while only three of them ranked among top twenty before the crisis. ICBC, CCB and BOC have ranked top three in global banking market. In 2008, China's banking sector, ranking first in the world in terms of total profit, profit growth and return on capital, realized 583.4 billion RMB of after-tax profit, 17.1% of ROE, 0.935% of ROA, and 2.4 % of non-performing loan rate. At the end of 2008, the overall weighted average capital adequacy ratio of China's commercial banks reached 12%, exceeding the prevailing international regulatory standard.**

Chart 1 Total assets of banking institutions (from 2003 to 2008)



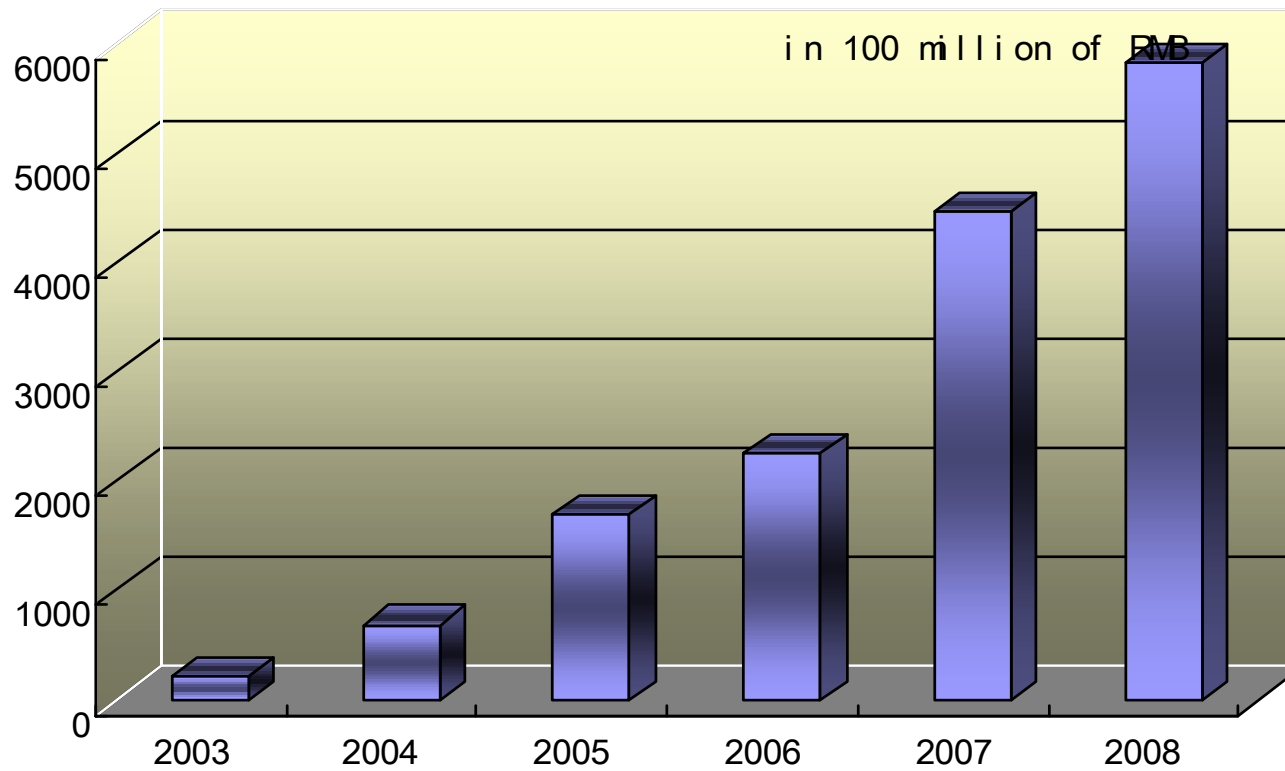
Development and services of China's banking sector

Chart 2 Outstanding of deposits and loans of banking financial institutions from (2003 to 2008)



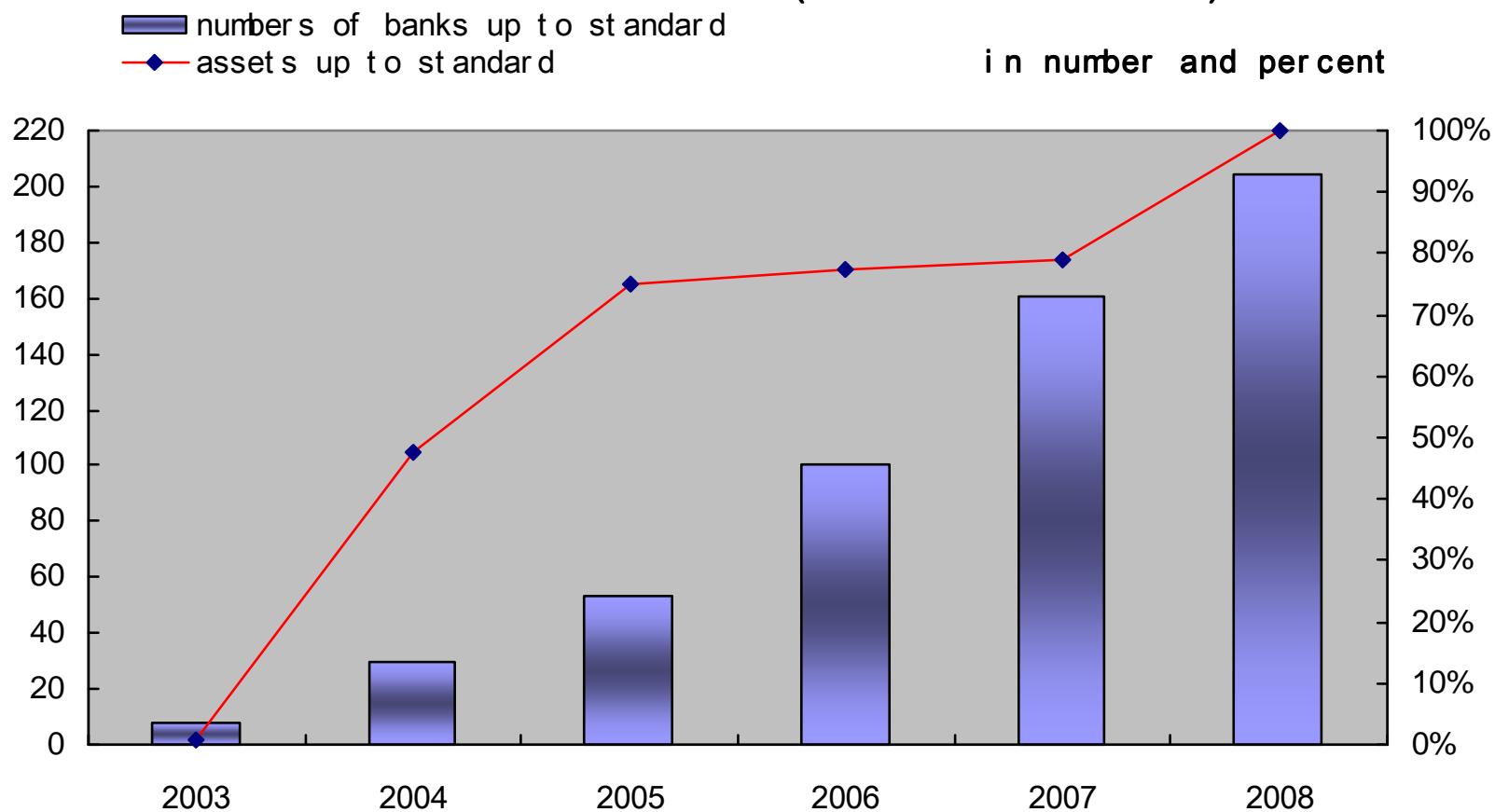
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Chart 3 Amount of after-tax profit of banking financial institutions



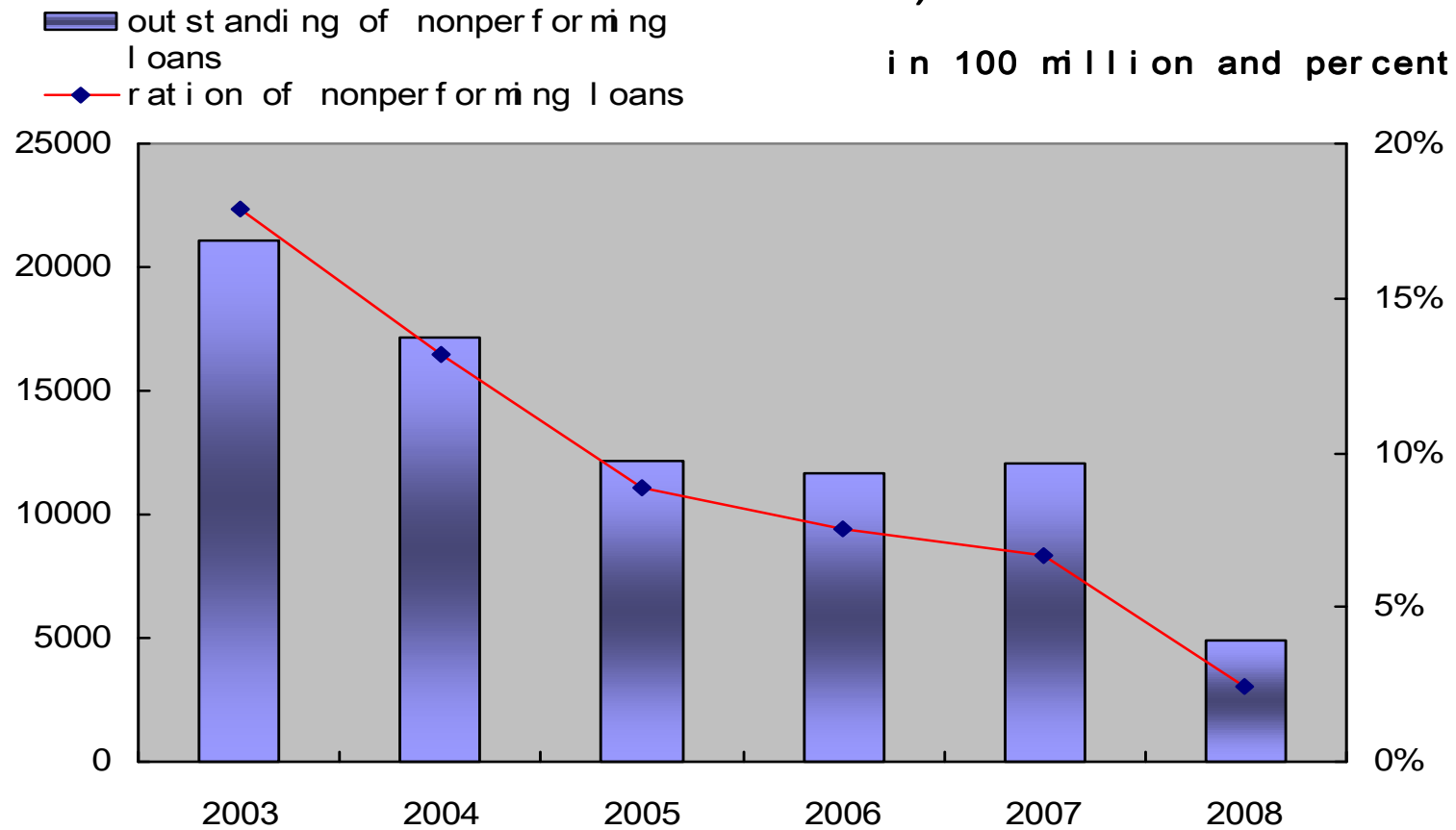
Development and services of China's banking sector

Chart 4 Numbers of commercial banks up to the standard of capital adequacy ratio and percentage of assets up to standard (from 2003 to 2008)



Development and services of China's banking sector

Chart 5 Outstanding and ratio of nonperforming loans of major commercial banks (from 2003 to 2008)







ii. Improve financing channels and expand the service coverage

- ❖ Network-building: set up new banking outlets in areas with low service coverage of financial institutions, gradually reduce the number of villages and towns having no access to rural financial services, reduce the over-lay outlets, and guide banks to reconstruct their outlets into multi-service networks.

Table of legal entities and business outlets of banking financial institutions

Classification	Numbers of legal entities	Numbers of business outlets
state-owned commercial banks	5	66247
policy banks	3	2203
joint-stock commercial banks	12	4166
city commercial banks	136	6884
urban credit cooperative	22	407
rural financial institutions	5257	76877
including: rural credit cooperative	4965	65561
rural commercial banks	22	3944
rural cooperative banks	163	7258
village and town banks	91	98
loan companies	6	6
rural mutual cooperatives	10	10
non-banking financial institutions	162	23
Including: financial companies of enterprise groups	84	21
trust companies	54	0
financial leasing companies	12	2
auto finance companies	9	0
currency brokerage companies	3	0
postal savings bank	1	36030
asset management companies	4	114
foreign financial institutions	32	400
Total	5634	193351

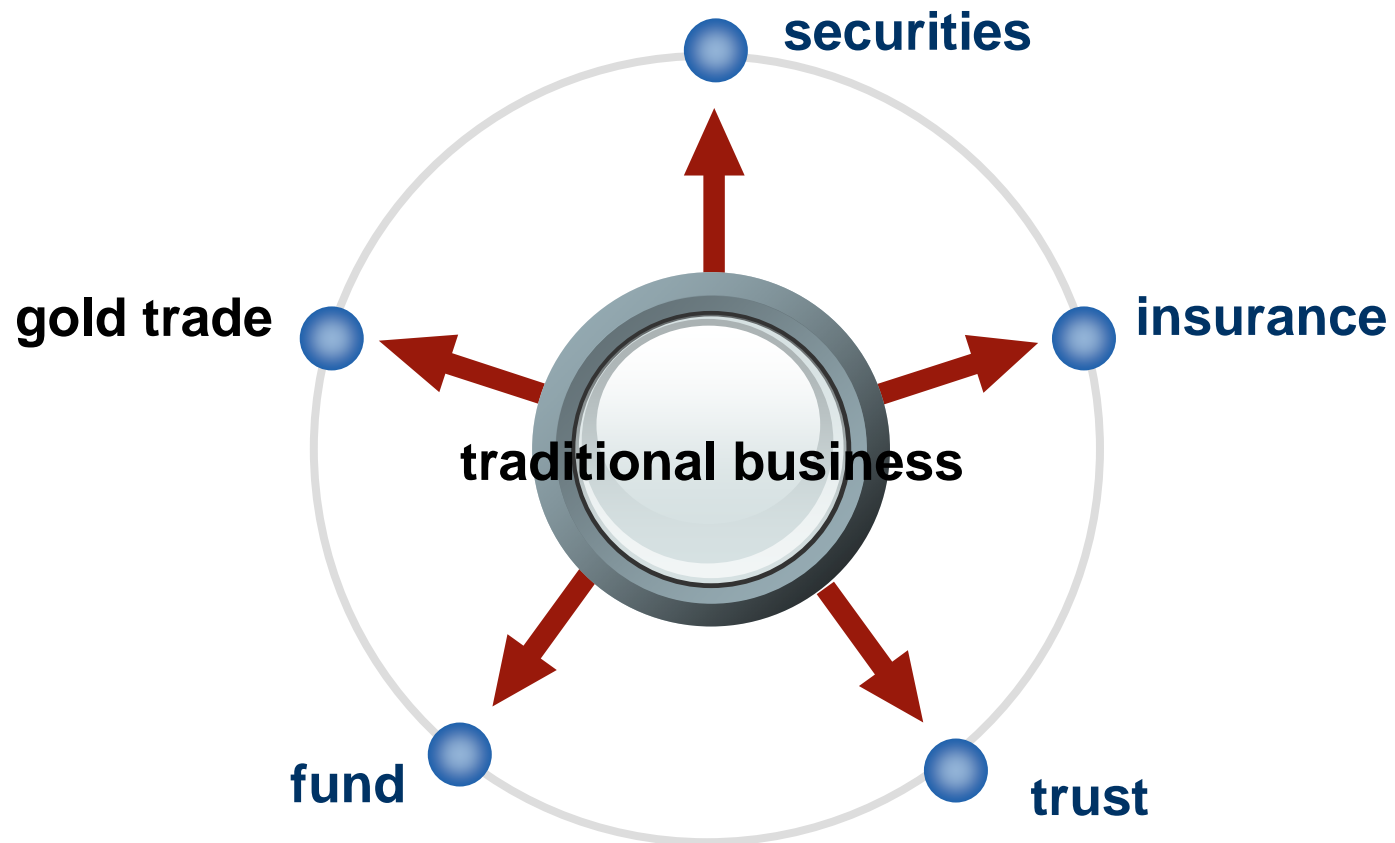
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- ❖ **self-service facilities:** at the end of 2008, self-service banking outlets totaled 35,873, self-service equipments such as ATM machines and POS machines totaled 223,434.
 - ❖ **e-banking:** at the end of 2008, e-banking individual customers reached 148.14 million, and corporate customers reached 4.14 million.

- 
- ❖ **In some banks, transactions processed through self-service facilities have exceeded the traditional counter transactions. New financing channels, like telephone banking and mobile phone banking, attracted more and more customers, especially the young generation.**





iii. Speed up product and service innovation, provide featured services

- ❖ Intermediate business: In recent years, intermediate business has turned to be the most active area of banking innovation. Given the shrinking of interest margin of traditional banking business, intermediary business has played a more important role in bank's profit growth.**



Development and services of China's banking sector

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- ❖ **The innovation of banking asset aims to differentiate the borrowers and meet their specified financing needs. Currently, banking asset business can be divided into loans and investments. The latter includes equity investment and bonds.**
 - ❖ **The innovation of banking debt, which is relatively simplified, mainly focuses on the conventional liabilities, but also covers the combinations with the funds and insurance products, such as structured deposits, Bank-Securities Link, Bank- Insurance Link, etc.**



IV. Fulfill social responsibilities, improve people's livelihood and promote growth

❖ Support rural finance

Regulators have set up differentiated financial policies for rural financial institutions, such as the lower entry threshold and a number of preferential policies. PBC has kept pushing forward the building of rural financial infrastructures, such as the rural credit system and the Payment and Settlement system. Banking institutions has been actively exploring financial products to meet the rural demand, such as micro-credit and “cooperatives plus farmers”, in which specialized cooperatives play important roles.



Improving financial services to small business


State Council and the China Banking Regulatory Commission successively promulgated a series of supportive policies to support small business development.

Several proposals on further promoting the development of SMEs (the 36th document issued by State Council in 2009)

Guidance for banks to establish small business financial services franchise organizations (Yin Jian Fa [2008] No. 82)

Guidance on bank's credit to small enterprises (Yin Jian Fa [2007] No.53)

Due diligence guidelines for commercial bank's credit to small enterprises" (released by CBRC in October 8, 2006)

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- ❖ **At end of the June, 2009, the balance of small business loans was 12.52 trillion RMB, accounting for 53.7% of the balance of corporate loans, accounting for 36.7% of the loan balance of this year. The growth rate of small business loans was 1.34% higher than that of corporate loans and 1.5% higher than the average rate of all loans.**




- ❖ **Enhance environmental awareness, promoting green credit**

In China, the low-carbon finance and the energy-saving and emission-reduction finance are called "green credit", which has become the focus of China's banking sector. In order to encourage the banks to increase green credit, mainly including the loans going for the energy-saving, emission-reduction, industrial upgrading and environment protection projects, CBRC PBC and the environment protection authorities have been actively developing the green credit policies. As a result, China's major commercial banks have been studying and formulating measures to provide more loans for the green projects and limit the credit to those against the environment protection. In October 2008, the Industrial Bank became China's first financial institution to adopt the "Equator Principles".



II. Regulation on the PSBC

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- ❖ **In March 2007, by approval of CBRC, the postal savings business was separated from the China Post Group Co., and Postal Savings Bank of China was established. Owned by the China Post Group Co. relying on the existing postal network, PSBC became a full-service commercial bank which was positioned to serve the community and the vast rural areas ,and engaged in the retail and intermediary businesses.**



i. Insist on market-oriented development; apply commercial bank's criteria for regulation

- ❖ In strict accordance with corporate governance and requirements of commercial bank management, Postal Savings Bank of China has been strengthening the capital constraints, building up the internal control and risk management systems and implementing market-oriented operation. Pursuant to the "Company Law", "Commercial Bank Law", "Banking Act" and other rules and regulations, CBRC has been regulating PSBC in accordance with the criteria for other commercial banks. China Postal Savings Bank is authorized to do all the commercial bank business just like any other commercial bank, without any privilege business.



ii. Guide China Postal Savings Bank to make full use of its comparative advantage and build up its core competitiveness

- ❖ "Postal savings", with a longer history than most other commercial banks, is well recognized by people. Among its 36,030 outlets, more than 50% of the savings outlets and 60% of the remittance outlets are located in the rural areas. Those outlets make up of China's largest personal financial services network, within which a nationwide deposit and withdrawal is accessible. CBRC has been playing an active role in window guidance, which helped the PSBC take advantage of its giant network and expand its retail and intermediary business.



❖ **Low-cost, stable balance of savings deposits**

At the end of 2008, the balance of its residents savings deposits reached 2080.2 billion RMB, ranking the fifth in China .



❖ **PSBC enjoys distinctive advantages in the intermediary business, and the reasons lie in the following aspects:**

First, with the country's largest remittance network, its remittance business ranked top in the nation.

Second, PSBC ranks the first in banking insurance market in terms of business volume and enjoys large market share of the payments collection business.

Third, PSBC has great prospects in the business of payment and settlement.



❖ **Assets business**


First, cooperation with other banks. PSBC can accumulate expertise and talents by participating syndicate loans project. As a project member, CPSB can conduct credit fund regulation and post-loan management through its large network. This is a "win-win" process.


Second, PSBC has been exploring the business model to serve rural areas and small business. For example, it has developed the micro-credit products, which has been well supporting the development of rural areas and small business. By expanding the micro-credit business, PSBC has made good use of its competitive edge and earned considerable profits.



iii. Urge PSBC to strengthen the basic capabilities and improve its competitiveness


- ❖ **Improve corporate governance**
- ❖ **Integrate its IT systems to build a modern banking IT platform.**
- ❖ **Enhance institutional buildup and risk management**
- ❖ **Standardize business processes**
- ❖ **Build up professional teams**

- 
- ❖ In recent years, China's large banks have carried out joint-stock reform. Through trial and error, they now successfully integrated the international advanced banking practice in their business operation, and witnessed great changes in corporate governance, risk control, product innovation, and process reengineering. From those banks' practices, regulators have also learned a lot of lessons, which may well serve PSBC. By learning from those banks, PSBC can save the unnecessary costs.

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- ❖ Fully considering PSBC 's comparative advantage and late-starter advantage, CBRC has set a high standard on its reform by giving a full-service commercial banking license, while also apply the same regulatory requirements applicable to other banks. Although it can be an enormous challenge for PSBC, but the regulators and the bank itself are quite confident.



III. Experiences drawn from the PSBC's reform and development

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- ❖ First, when carry out the reform of postal savings, it's important to fully consider the home nation's conditions and adopt a gradual approach.
 - ❖ Second, make use of postal savings' comparative advantages and stick to the market-orientation, so as to establish a complementary banking system
 - ❖ Third, maintain a unified regulatory standard, and regulate postal savings bank in full compliance with the standard applicable for commercial banks, so as to promote fair competition.



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