

Big Bank – Small Money!



她，是3000万诚信个体工商户中的一员。

“Microfinance and Retail Banking”

***Postal Savings Bank of China (PSBC) &
GTZ Project on
Microfinance and Retail Banking***

**Tuesday, November 10th, 2009
United Postal Union Conference
Berne – Switzerland**

Agenda

- (Introduction to PSBC)
- Opportunities and Challenges for PSBC's (Micro)Credit business
- Strategic Approach to the Development of PSBC's (Micro)Credit Business
- Reasoning of the GTZ Project
- Project Implementation
- Results
- Reflections - Lessons Learnt
- Q& A

Introduction to Postal Savings Bank of China (PSBC) - History

- **1978**, Deng Xiao Ping starts the economic reform process
- **1986**, Ministry of Post and Telecommunications reopens savings business upon the approval of the State Council
- **1999**, Postal Savings and Remittance Bureau (PSRB) becomes an independent business unit of the State Post Bureau
- **Aug 2003**, responsibility of managing postal savings mobilized after August 2003 is transferred from People's Bank of China (central bank) to PSRB
- **Aug 2005**, the State Council releases the "*Plan of the Postal Systems Reform*" leading the way to the later establishment of the PSBC
- **Dec 2006**, China Banking Regulatory Commission (CBRC) approves the establishment of the PSBC
- **March 2007**, the head office of PSBC has been established
- **Dec 2007**, CBRC permits PSBC to offer the full range of credit products

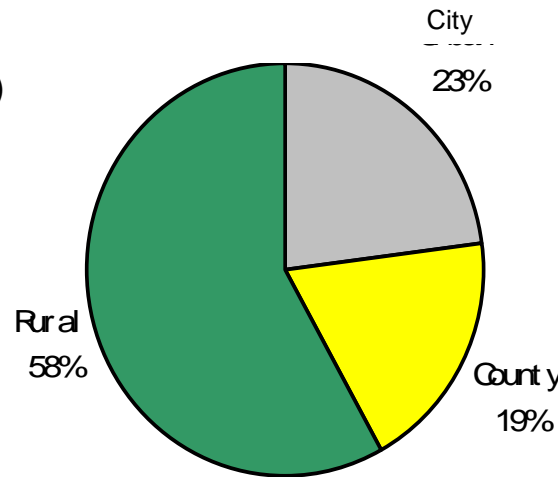
PSBC – Clients, Products, Organization, Staff

- PSBC – **clients**: 300 million savings client, 500 million accounts, focus on counties and rural areas

- PSBC – **products**:
 - Credit business (MSE, syndicated loans)
 - Savings (10% of all savings mobilized in China)
 - Credit card business
 - Debit card business (green card)
 - Remittances (national and international)

- PSBC – **organization** with five management levels:
 - Headoffice
 - 36 provincial branches
 - 315 city level branches
 - 2129 county level branches
 - 36500 outlets

- PSBC – **staff**
 - 230.000 employees



PSBC's Strategic Objectives

- Improve urban and rural financial services by taking full advantage of the client base and the branch network

- Support the building of the “new socialist countryside”

PSBC is a profitable, fully fledged commercial bank with a sound business model providing services to households and corporates all over the country

- Develop corporate banking and strengthen PSBC's competitive advantages in retail banking

The logic of the double bottom line applies for PSBC applying a commercial approach to achieve a social objective

The Credit Business of PSBC and the GTZ – PSBC Project on Microfinance and Retail Banking



Opportunities and Challenges (for the Credit Business)

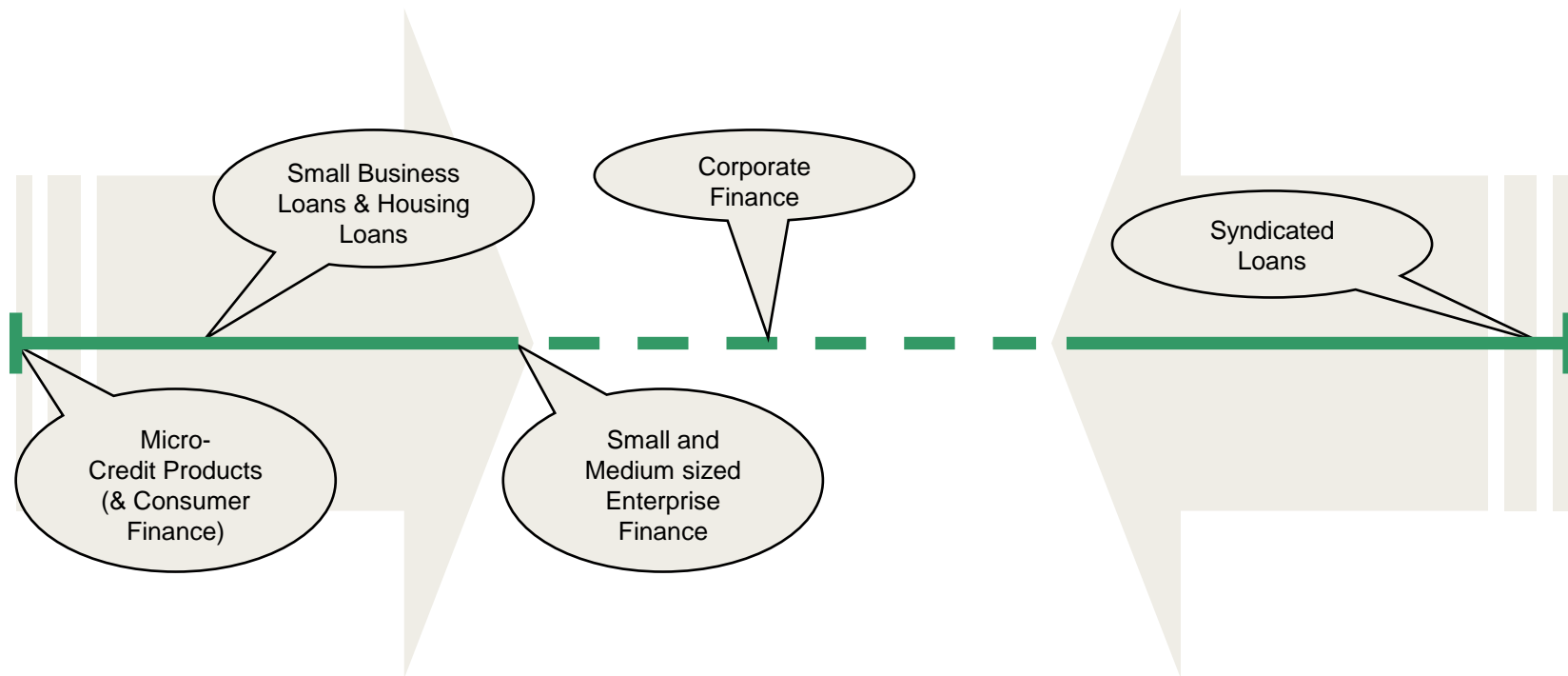
Opportunities

- Favorable economic environment – double digit growth rates for almost 2 decades – in particular amongst MSME in China
- Political framework conditions – “SAN NONG” – “*harmonious socialist countryside*” – access to financial services for households and MSME as a political goal
- PSBC’s unique market position and dedication to its strategic objectives
 - a) significant client basis
 - b) cheap refinancing
 - c) large branch network
 - d) cheap labor force
 - e) well established brand name with a good reputation
 - f) low competition in the area of MSME lending
- The State Council selected PSBC to become one of the main providers of financial services for ordinary households and MSME all over the country

- Applying a strategic bank management approach
(with a clear vision, mission, a set of long term objectives, a well defined business case with a corresponding comprehensive business strategy)
- Defining and implementing a new corporate culture for the new bank
- Qualification of staff / HR management
- Risk management
- Lack of equity
- Accounting
- (...)

Challenges

(Pragmatic) Strategic Approach to the Development of PSBC's Credit Business



Reasoning of the GTZ Project

- **STABILITY:** PSBC is the fifth largest bank in China. Accounting for 300 million clients and approximately 10% of the savings of Chinese households, the bank is of systemic relevance for the stability of the Chinese financial sector.

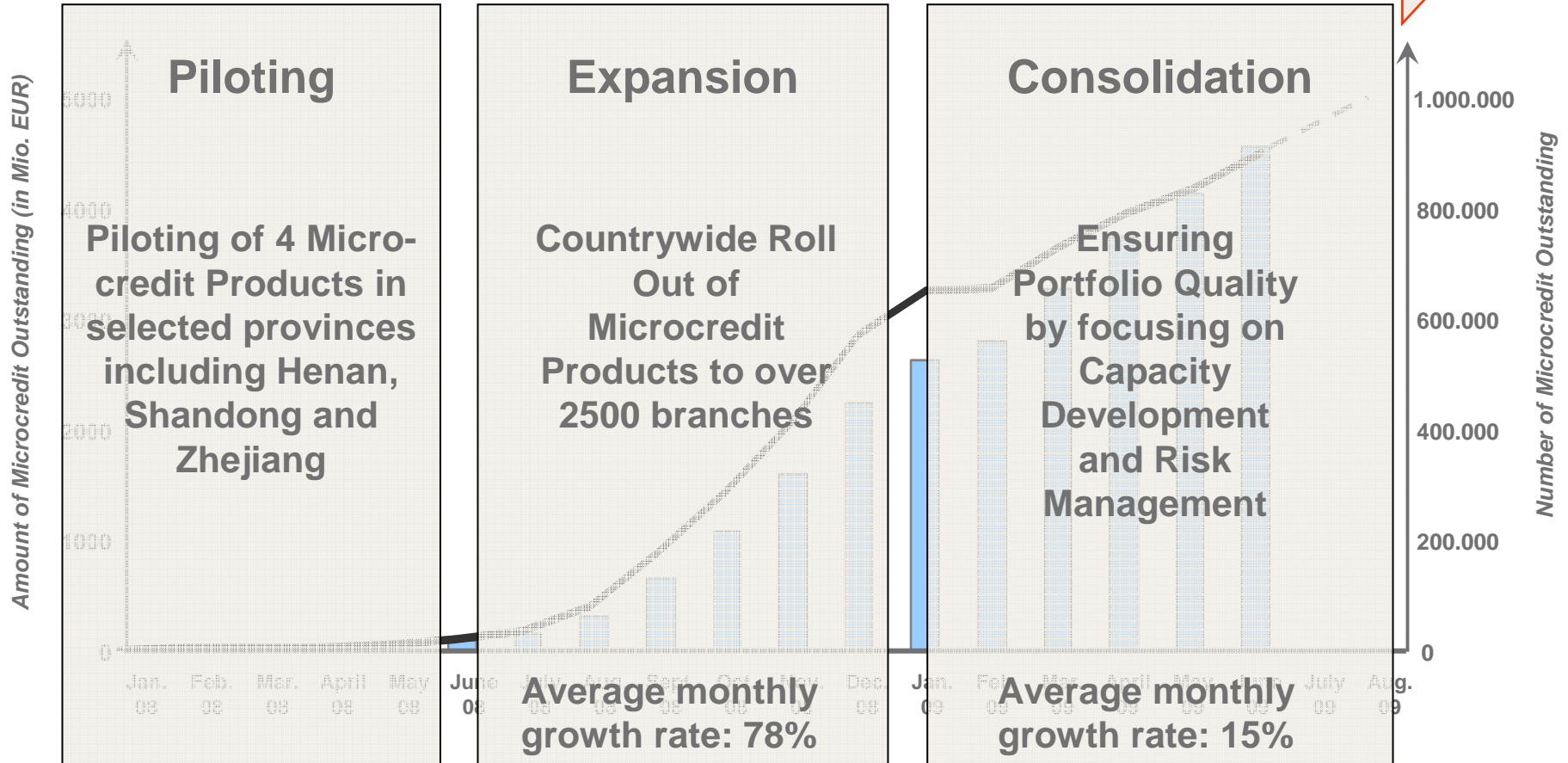
- **ACCESS:** Most of PSBC clients are low income clients, ordinary households and migrant worker all over the country.
- PSBC is thus a cornerstone for the financial infrastructure in China and plays a crucial role providing access to basic banking services.

- **BALANCED GROWTH:** China experiences a growing wealth gap amongst its citizens and regions. Access to credit finance for MSME and rural households is still very limited.

The project supports the strategy to turn the state owned PSBC into a sound financial intermediary / a fully fledged bank with the social/political mandate to provide financial services to households and MSME in remote, semi-urban and rural areas.

Project Implementation in Three Phases: Development of PSBC's Microcredit Business

Nov 2009:
1.2 million loans
outstanding



Piloting

- March 2007 – First project appraisal mission with PSBC
- June 2007 – A consulting company has been mandated to implement a microcredit product in a pilot branch in Henan
- April 2008 – The project has been officially launched – the microfinance and retail banking competence centre in PSBC's credit department has been established
- Expert missions to pilot provinces
- As a consequence pilot products and procedures have been undergoing a first reengineering: Joint elaboration of new regulations, procedures and a operational manual for the credit staff
- More than 10.000 loan officers and credit managers have been equipped and trained with the so called "green book"

Expansion

- Starting from June 2008 until December 2008 rapid expansion of the credit business
- Development and implementation of various management tools and instruments (PBS, ABC, ...)
- Training of trainers
- Awareness raising for the growth risks (risk assessment in pilot provinces and organization of an intensive exchange with Bank Rakyat Indonesia – BRI)
- Joint decision to develop and implement a new fully fledged training system in PSBC
- The elaboration and implementation of a fully fledged risk management strategy is delayed, thus the risk avers product setting has not been further touched

Consolidation

- Starting from January 2009 until now: Mitigating risks by enhancing the capacities of credit related personnel in PSBC
- Therefore development and step-by-step implementation of a fully fledged training (and coaching) system all over the country
- Frankfurt School is subcontracted by GTZ
- Frankfurt School experts are integrated in the management structure of the PSBC GTZ project management and implement together with PSBC and GTZ experts the training (and coaching) system in 10 provinces
- Altogether over 1.500 trainers and key staff members have been trained and coached
- Release of new rules and regulations for the credit business and a new operational manual for the credit staff

Integration in PSBC's credit department and a successful communication culture with PSBC colleagues on management and operational level are key for the success!!!

Consolidation

- Starting from June 2009 reorganization of the credit business in city level branches (Baoding pilot project)
- Assessment of the credit business in selected city level branches
- Development of standards
- Budgeting and planning tools
- Marketing training
- Reporting standards

Future Topics

- Strategic planning process for the entire bank
- Implementation and monitoring of the bank strategy and the individual business strategies
- Development and implementation of a corporate culture
- Development and implementation of a comprehensive risk management strategy
- Development and implementation of new credit products (small corporate loan business)

Sustainable Growth

- PSBC achieves its business and political objectives:
- PSBC becomes a fully fledged commercial bank with a sound business model and a profitable business in providing services to households and corporates all over the country

Integration in PSBC's credit department and a successful communication culture with PSBC colleagues on management and operational level are key for the success!!!

Results (August 2009)

Loan Product		Disbursement		Outstanding		Arrears > 1 day (%)
		No.(000')	Amount (bil.)	No.(000')	Amount (bil.)	
Micro	Business (guaranteed)	390	31	281	14	1.97
	Business (group lending)	325	28	233	14	2.06
	Rural (guaranteed)	125	4.6	95	2.8	1.17
	Rural (group lending)	573	22	421	15	0.83
Individual Business Loans		62	15	54	13	0.05
Housing Loans		27	6.3	27	6.2	0.05
TOTAL		1.5 Million	107 Billion RMB = 10 Billion EUR	1.1 Million	65 Billion RMB = 6 Billion EUR	

Results – Access to Microcredit?!

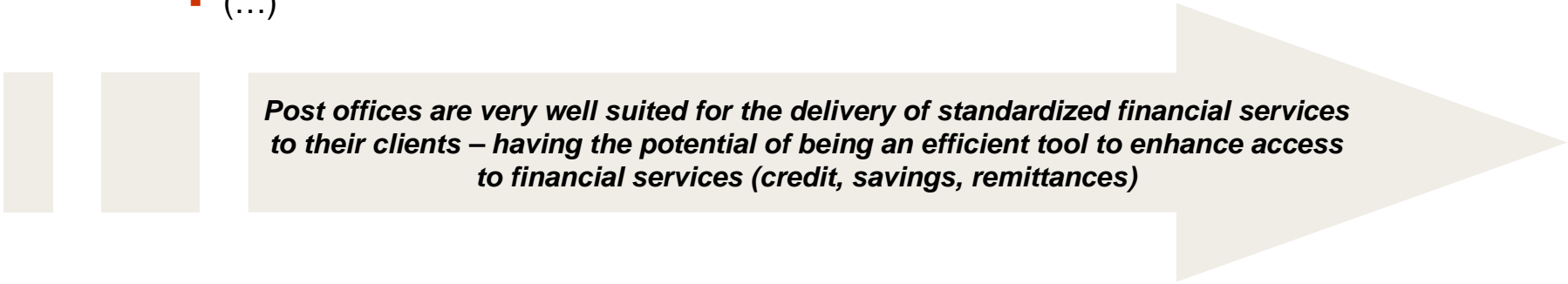
- Microcredit products are available to PSBC clients in 36 provinces, autonomous regions and independent cities – countrywide access to microcredit
- 18.000 loan officers have been trained and offer microcredit products to PSBC clients (farmers, small entrepreneurs) in 3215 outlets (10% of all outlets), 2002 county level branches and 312 city level branches
- 65% of these outlets are in rural areas
- PSBC has currently 1.2 million microcredits outstanding – since the beginning of the project more than 1.7 million microcredits have been disbursed
- 67% of all loans (amount) can be attributed to clients (farmers and small entrepreneurs) in rural areas
- The portfolio quality is excellent with less than 1,5% of the loan portfolio overdue by one day

But there is still a necessity to enhance access to poorer segments of creditworthy micro entrepreneurs and farmers...

- Since the average loan amount amounts 60,890 RMB – thus the average amount is beyond classical microcredit and since
- a significant portion of the loan portfolio can be still attributed to the wealthy costal areas
→ 64 % (central: 18%, west: 18%)

Reflection on Lessons Learnt – Advantages


- Post offices have often a unique infrastructure and often experiences with basic bank services – in particular with remittance services and savings products
- In most countries post offices have a long standing history and a reputation for its reliability; thus a good brand name
- Economies of scope: The same delivery channel is used for financial and non-financial products contributing to an efficient use of assets – thus even in remote areas cost covering services can be provided
- Post offices often enjoy often a monopoly income from standard postal services and can thus cross subsidize the provision of services in remote areas
- Often a well established and functioning organizational structure and internal procedures are in place
- (...)



Post offices are very well suited for the delivery of standardized financial services to their clients – having the potential of being an efficient tool to enhance access to financial services (credit, savings, remittances)

Reflection on Lessons Learnt – Challenges

- Bureaucracy – Status quo preference - Difficulties to change the mind set
- Weaknesses in strategic (bank) management
- Lack of experience in managing risks and liquidity
- Lack of qualified personnel
- Lack of a functioning banking IT
- Often very insufficient accounting systems (profits cannot be attributed to individual products or services)
- Struggle / competition between financial and non-financial service departments
- Transactions costs? – In comparison to other types of financial institutions lower...(?)
- (...)



Though Post Offices have unique preconditions for the broad supply of financial services – there are some challenges to be addressed in the course of the transformation process...

Reflection on Lessons Learnt - *Recommendations*

- *(Business case and favourable regulatory environment)*
- *Have a clear objective and strategy to achieve it*
- *Make sure that your entire organization (management and ordinary staff) understands and is dedicated to the objective and the strategy*
- *Fully exploit your strengths (e.g. the existing client base, presence in areas without competitors)*
- *Keep things (products, procedures, necessary qualification of staff) as simple and standardized as possible (thus you do not overburden your staff and you are better able to control the business)*
- *Invest into a standardized training system for your staff and management*
- *Develop a fully fledged risk management system*
- *Invest into a core banking IT (permitting a high standardization of your business, supporting the management of risks and access to necessary management information)*
- *Do not hesitate but take your chance...* (before competitors – e.g. with new technologies such as mobile banking devices - enter the market)
- *Study the transformation process of postal organisations in other countries...*

谢谢 – Thank You!

PSBC-GTZ Project on Microfinance and Retail Banking

Jinyu Office Building, Office 1615
No. 129A, West Xuanwumen Avenue
Xicheng District, 100031 Beijing, P.R. China

T: + 86 (0)10 6641 5228 F: + 86 (0)10 6641 0619

E: Michael.Roth@gtz.de,
Zhen.Cai@gtz.de

W: <http://www.gtz-china.org>