

The Progress of China's Private Banks Against "the Belt and Road Initiative" and Its Enlightenment to Private Banks in Xi'an

Jianghong Yao^{1,*}

¹Business School, Xi'an Fanyi University, Xi'an, Shaanxi, 710105, China

*Corresponding author. Email: 346279994@qq.com

ABSTRACT

As of late August 2017, 17 private banks in China have been approved to set up since the first five pilots in 2014. The proposal of "the Belt and Road Initiative" brings great development opportunities and challenges to private banks in Xi'an. The paper first analyzes the development status of private banks in China and abroad, discusses the necessity, pros and cons of developing such banks in Xi'an, and the main obstacles for their development in the context of introduction on the basic situation of Chinese private banks, and probes into the influencing factors. Finally, the approach and policy suitable for the development of private banks in Xi'an are proposed, which is conducive to the improvement of the city's financial structure system, the rapid and sustainable development of private banks, and the contribution of those banks to the city's economic development.

Keywords: "the Belt and Road Initiative", private banks, initiatives

I. INTRODUCTION

Over the past 30 years of reform and opening-up, China has made remarkable achievements in opening-up. However, limited by factors as geographical location, resource endowment, and development foundation, the overall pattern of opening-up is characterized as follows: fast in eastern region while slow in western region, strong in coastal cities while weak in inland cities. The proposal of "the Belt and Road Initiative" will give rise to a new pattern of "one body with two wings" on opening-up. That is to accelerate the opening of the western region while deepen opening of eastern region, and to make the inland border areas the frontline of opening-up from the edge. Following the Silk Road spirit of peaceful cooperation, openness and inclusiveness, mutual learning and mutual benefit, Xi'an, the starting point of the Silk Road Economic Belt, is bound to further enhance cooperation and development with countries along the belt in such areas as transportation infrastructure, trade and investment, energy cooperation and regional integration.

On July 5, 2013, *Guidelines of the General Office of*

the State Council on Financial Support for Economic Restructuring, Transformation and Upgrading (hereinafter referred to as "The Guideline") was issued, proposing for the first time "an attempt to establish private banks with their own risks initiated by private capital". On September 29, 2013, the CBRC (China Banking Regulatory Commission) issued a notice to support the entry of private capital into the banking sector in the zone, explicitly supporting qualified private capital to set up risk-bearing private banks in Shanghai Free Trade Zone. At the end of 2014, the first batch of five pilot private banks were approved. Then, We Bank announced its opening and became the first private bank to open. By May 2015, the first five pilot private banks had all opened. The second batch of private banks began to conduct business in June 2015. The CBRC officially issued the *Guidelines on Promoting the Development of Private Banks* on June 26, 2015, and released *Guidelines on the Supervision of Private Banks* on December 31, 2016.

Since the establishment of the first batch of private banks in 2014, there are currently 17 private banks approved by the CBRC to open (including those already opened). At present, there is basically one private bank in one province, but there are still more than 10 provinces that lack approved private bank, concentrated in the western and central regions, including Heilongjiang, Shanxi, Shaanxi, Guizhou, Gansu and other provinces, This situation is not satisfactory, and private banks still need to speed up the pace of

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development. However, their development has reached a new level and entered a new stage. Small and medium-sized financial institutions initiated by private capital appear in large quantities and continuously. As a leader in the construction of Silk Road Economic Belt, Xi'an innovates the development path and mode of private banks thanks to national economic development strategies such as "the Belt and Road Initiative", which gives rise to huge business opportunities and challenges to the development of private banks here, and will surely promote China's financial market and Xi'an's private economy.

II. REVIEW OF RESEARCH STATUS INSIDE AND OUTSIDE CHINA

A. Overview of researches in China

1) *Research on development problems and countermeasures of private banks*: Lu Minfeng et al. (2013) analyzed credit risk and other issues in the development of private banks, and proposed measures such as the introduction of a deposit insurance system. Zhu Liutao (2015) probed into the main obstacles to the development of private banks and proposed policy recommendations for the healthy their development. Chen Xiaorui (2016) explored the problems of high capital costs in the development of private banks, and proposed relevant countermeasures.

2) *Research on operating risks of private banks*: Zhou Yunlan et al. (2015) pointed out that the development of private banks faced both opportunities and challenges, and both benefits and risks. Chai Ruijuan et al. (2016) proposed internal and external risks for the development of private banks, and related risk prevention and control measures. Lu Fucui et al. (2014) explored the vulnerability of financial systems in private banks and put forward related suggestions for preventing financial risks.

3) *Research on difficulties in fund management of private banks*: Wang Aijian (2005) pointed out that the existing banks in China cannot meet the financing needs of small and medium-sized enterprises. Gao Xiaoyan et al. (2006) proposed that private banks should fully solve the problem of financing difficulties for small and medium-sized enterprises. Liu Bing (2015) held that more rigorous and effective methods should be adopted to resolve the issue of fund management.

B. Overview of researches outside China

1) *Research on the development trend of community banks*: David Holland et al. (2004) conducted a thematic discussion on the development banks in small and medium-sized cities in the United States. Michael

Mazu (2007) took that financial consumers have higher satisfaction and recognition of small and medium-sized financial institutions such as community banks. Bemanke (2008) made it clear that community banks serve as major financing channels for American small businesses.

2) *Research on the operation mode of private banks*: Andeson (2000) thought that the main reason for Japanese private bank crisis is the imperfect corporate external governance mechanisms. Arun et al. (2002) listed the problems of developing countries in choosing bank operation model. Macey and Hara (2003) investigated the development of private banks from the perspective of law.

3) *Research on the advantages of private banks*: Cole and others found that small and medium-sized banks have a comparative advantage over large banks in analyzing and processing soft information. Banerjee put forward the "long-term interaction hypothesis". Peek and Rosengen's research shows that the size of loans issued by large banks to small and medium-sized enterprises is significantly smaller than that before the merger.

C. Review

The above reveals that even scholars inside and outside China have conducted comprehensive analysis on the development of private banks from different perspectives, they tend to explore their existing problems and countermeasures, and there is a lack of systematic and targeted research on the risks and development paths of those banks. The relevant research results are scattered and the coverage is not wide enough, which leads to the lack of theoretical support for the operation of private banks in some fields. The proposal of "the Belt and Road Initiative" brings greater opportunities and challenges to the development of private banks in Xi'an. Therefore, it is necessary and urgent to explore a systematic development theory and path of private banks, as their development serves as a crucial means to improve people's livelihood and achieve common prosperity.

III. ANALYSIS OF THE BASIC SITUATION OF CHINA'S PRIVATE BANKS

By the end of August 2017, the CBRC has approved the establishment of 17 private banks, of which 15 had officially opened. Apart from the private banks approved by the CBRC, Guangzhou Huacheng Bank, Shanghai Zhangjiang Bank, Jiangxi Yumin Bank, Guizhou Gui'an Bank, Shaanxi Xijing Bank and Mindong Bank are all in the declaration stage. The majority of the 17 private banks are positioned as Internet banking, serving small and micro-online business, financially disadvantaged groups as "three

rural (agriculture, rural areas, and rural residents)" economy, community residents and consumers. Most of its business models include deposits and loans in specific regions, joint investment, open platform model, integrated development of online and offline, and supporting micro-innovation.

Their business scale and operating performance are positively related to their business, and their assets scale and operating income are also increasing year by year. The details are shown in "Table I".

TABLE I. BUSINESS SCALE AND OPERATING PERFORMANCE OF 17 PRIVATE BANKS

Bank name	Asset scale (100 million yuan)	Operating income (100 million yuan)	Net profit (100 million yuan)
We Bank	2200	100.3	24.74
Myshare Bank of Wenzhou	Undisclosed		
KCB	213.68	5.66	1.52
Shanghai Huarui Bank (SHRB)	362.61	10.93	3.27
My Bank	959	62.84	6.71
Chongqing Fumin Bank	370.2	3.93	0.53
Sichuan Xinwang Bank	361.57	13.35	3.68
Bank of Sanxiang	315.38	6.81	1.53
One Bank	Undisclosed		
Z Bank	145.2	1	0.16
Yilian Bank	Undisclosed		
Suning Bank	323.71	4.5	0.036
Blue Ocean Bank	188.31	4.24	0.96
Zhongguancun Bank	131.55	4.33	0.9
Meizhou Hakka Bank	126.77	1.98	0.5
Xin'an Bank	40.26	1.42	0.2
Newup Bank of Liaoning	175.09	2.07	0.13

IV. THE NECESSITY OF DEVELOPING PRIVATE BANKS IN XI'AN

A. Effectively alleviating the difficulty of SMEs and rural credit

As the pillar industry of Xi'an's economic development, SMEs have played an active role in easing urban population employment and providing tax revenue. However, they often suffer from financial problems such as financing difficulties and capital shortage, resulting in operating losses or even bankruptcy. Private banks can effectively solve the credit issues they encountered because of their business and market environment and provide guarantee for their stable and sustainable development. With the development of the economy from urban to rural areas and the strong support of the national policy on agriculture, rural areas, and farmers, it is difficult for big state-owned banks alone to cover all rural financial business. Private banks, with their unique operation and management mode, widely-distributed branches and low cost, can quickly solve the problem of fund shortage in rural economic development, and are more suitable to support the needs of rural economic development.

B. Improving the market competitiveness of financial industry

The rapid integration of private banks into financial system has accelerated the market-oriented reform of the financial industry. Although it has brought huge dent to the market business of state-owned banks and joint-stock commercial banks, it has also injected new vitality into the development of the financial market, which will be more diversified. Private banks have their own positioning and clear service objectives. Their scientific and reasonable commercialization development mode enhances market competitiveness, and challenges the business development of state-owned banks and joint-stock banks, which requires them to further optimizing financial structure, actively expand business, answer international banks with private banks in market competition, thus improve the overall competitiveness of China's financial industry.

V. DEFICIENCIES IN THE DEVELOPMENT OF CHINA'S PRIVATE BANKS

A. Restrictive clauses in market supervision

Private banks are faced with more restrictive provisions in market access supervision and specific business development. *The Detailed Rules for the Implementation of Market Access of China Banking Regulatory Commission* stipulates that private banks

should adhere to the "one-bank, one-outlet" model, which is not conducive to attracting private capital for investment. According to *Detailed Rules for the Operation of Inter-bank Loans Market Business in China*, private banks cannot enter the inter-bank loans market to carry out liquidity management within two years after their establishment. At present, only a few banks such as SHRB, We Bank and My Bank have obtained the issuance qualification of certificates of deposit (CDs). *Administrative Rules for the Issuance of Financial Bonds in the National Inter-bank Bond Market* shows that it's difficult for private banks to obtain funds through the issuance of financial bonds within at least three years of their establishment, when they are most in need of funds. *Notice on Improving Personal Bank Account Service and Strengthening Account Management* has not yet lifted the restrictions on the remote opening of fully functional category I accounts, which limits the ability of Internet private banks to absorb public deposits, resulting in their deposit balances being far lower than those of traditional Banks.

B. Relatively simple ownership structure

The capital structure of a private bank that has been established is relatively simple. Most shares are concentrated in a certain individual or group. As a result, some major shareholders, when voting at the general meeting and the board of directors, make use of the advantages of the actual controlling shareholders of private banks to conduct business in the personal industry to protect their own interests, which lead to more related loans or transactions. However, a large number of scattered minority shareholders cannot exercise their voting rights, which brings significant operational risks to the development of private banks. The credit system and risk control of private banks will be nominal and cannot play the corresponding role of internal control and supervision for banks' development.

C. Intense market competition

With the gradual advance of China's financial market-oriented reform, the types and number of financial institutions are also increasing. As newly established financial institutions, private banks have problems such as single business structure, low credit rating and weak ability to absorb deposits. No matter how private banks seek differentiated development strategies, it is difficult for them to form competitive advantages against state-owned banks in their infancy. Its service objects overlap with that of smaller banks, mainly agriculture, rural areas, and rural residents, SMEs and individual residents. In addition, the restrictions imposed by the government regulatory authorities on qualification and business scope have

seriously hindered the development of market edges and anti-risk ability.

D. Imperfect financial supervision system

The rapid development of China's economy has promoted the continuous improvement of legal system. The state has implemented a series of financial regulations and regulatory measures to regulate state-owned banking business, but there is no special legislation on private banking business, which leads to the imperfect deposit insurance system and incomplete laws and regulations on bankruptcy. Such operating environment is bound to bring greater financial risks to the development of private banks. At present, the financial supervision of private banks is more inclined to control the risk of market access, and there is no corresponding detailed regulation on the follow-up measures after delisting. In order to ensure the sustainable and long-term development of private banks in the financial market, financial regulators should actively explore the risk prevention mechanism of their market launch.

E. Lack of professional financial talents

The operation and development of banking industry, a technology-intensive industry, requires not only huge financial support, but also financial talents with professional knowledge, innovative financial products and operation and management method. The advent of big data and information age leads to the rapid development of the financial industry and the gradual upgrading of business management service level. The lack of professional financial talents in private banks, coupled with the advantages of state-owned commercial banks and foreign banks over private commercial banks in terms of salary and treatment, makes the professional talents in private banks even more scarce. To achieve long-term development, private banks must recruit professional financial talents for management and service.

VI. STRATEGIES TO PROMOTE THE DEVELOPMENT OF PRIVATE BANKS IN XI'AN

A. Appropriately relaxing the market access mechanism of private banks

In order to facilitate private banks to use the Internet and physical outlets to absorb and radiate more customers, the following measures should be considered: The abolition of the current restrictions of "one-bank, one-outlet" of private banks. The current *Measures on the Administration of Interbank Lending* and *Administrative Rules for the Issuance of Financial Bonds in the National Inter-bank Bond Market* should be revised as soon as possible to provide convenience for private banks to enter the inter-bank lending market

to carry out liquidity management and obtain fund sources by issuing financial bonds, and gradually alleviate the problem of single source of liabilities of private banks. The pilot project of private banks to open full-function class I accounts remotely should be promoted timely on the premise of reliable technology, controllable risks and industrial impacts, real-name authentication and cross-checking. Pilot projects can be carried out for specific regions, specific categories of customers or private banks with relatively mature technologies and controllable risks. The method of "remote face recognition + identity certificate verification" can be used for authentication to gradually improve the account authority. The conditions for the newly established private banks to join the deposit insurance system should be clarified, a two-year transitional period should be set for such banks, and deposit insurance premium should be paid according to the actual risk level.

B. Gradually increasing the decentralization of equity

The centralized equity management of private banks is not conducive to the market-oriented development of their business. In order to standardize its operation and management, a third-party auditing institution can be incorporated into its operation and management activities to constrain and regulate the financial and fiscal risks caused by the concentration of equity. While strengthening the market access mechanism of private banks, the exit mechanism should also be standardized. When private banks encounter insurmountable financial risks, the regulatory authorities should identify the risks according to the actual situation, formulate bankruptcy liquidation procedures and exit mechanisms suitable for their development to reduce losses, so as to systematically guarantee the stable and safe development of private banks.

C. Enhancing the edge of private banks

The key for private banks to remain invincible in the fierce market competition is to develop knockout service and products different from those of traditional banks, seek differentiated ways to compete and provide more targeted and convenient financial services for the real economy, especially for SMEs, agriculture, rural areas and rural residents based on their regions, industries, customer resources and foundation. Xi'an, the starting point of the "Silk Road", is an international metropolis with national emphasis on construction, boasting competitive advantages as strong science and education strength, rich natural resources and profound cultural accumulation. The arrival of the information age has undoubtedly brought huge business opportunities to the development of private banks in Xi'an, which allows private banks to provide professional financial services for their customers.

D. Improving the legal supervision system

The lack of credit system caused by the imperfection of the legal system of private banks is the main cause of financial risks, which leads to the failure of effective recovery of some loans and economic losses. Private banks with scattered customer credit records and cross business failed to share customers' credit information, and the confidentiality measures of customer information were not regulated by law. The author here proposes the following countermeasures. The first is to improve the construction of the legal system, strengthen the punishment for breach of trust, to ensure that the credit system is effectively supported by the law. The second is that the legal persons and enterprises of private banks should be included in credit system to ensure the interests of depositors, which prevents banks from going bust to avoid financial debt. The establishment of enterprise credit information will blacklist the illegal bankrupt enterprises in the credit system, form a joint force of legal supervision, and toughen the punishment.

E. Introducing comprehensive talents

Private banks that emerged when information technology achieved certain progress can utilize and innovate mobile technology and increase the development of online business to meet the needs of customers' online financial business. At doing so, private banks should promote the training of employees' financial business capabilities, as well as of their computer Internet technology and other business, which benefits the overall market competitiveness of private banks.

VII. CONCLUSION

The emergence of private banks is essential for improving China's financial system and ensuring the long-term development of the financial market. Despite some achievements, the 17 private banks still face problems such as single ownership structure and imperfect financial supervision system. Therefore, private banks should follow the trend, and take mobile Internet as stepping stone to realize online and offline two-way service. It is also necessary to explore development paths different from that of traditional banks, increase service scale, and improve anti-risk ability and market edge to grab a share in financial market and better serve local economic development.

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