## ¶1-900 Laws for FIEs

The main laws and regulations directly applicable to FIEs in relation to banking and finance in China are as follows:

- *Law of Sino-foreign Equity Joint Ventures;*
- *Law of Sino-foreign Cooperative Joint Ventures;*
- *Law of Wholly-owned Foreign Enterprises;*
- *Accounting Regulations for Enterprises with Foreign Investment*; and
- *Regulations for the Registration of Foreign Investment Enterprises.*

All these laws and regulations contain clauses relating to banking by the FIE. It should be noted that requirements relating to foreign exchange control of FIEs also constitute an indivisible component of banking. This is the case since many vouchers and documentation have to be presented when FIEs make foreign exchange payments or conversions at banks. Knowledge of foreign exchange control is therefore indispensable when FIEs conduct banking transactions in foreign currencies.

## ¶1-910 Laws for foreign-funded financial institutions

The main laws and regulations relating to foreign-funded financial institutions are contained in the two latest regulations promulgated:

- *Regulations on the Administration of Foreign-funded Banks*, promulgated by CBRC on 11 December 2006.
- *Detailed Rules of Regulations on the Administration of Foreign-funded Banks*, promulgated by CBRC on 11 December 2006.

These two pieces of regulations stipulate provisions for the establishment and operation of the foreign-funded banking institution in China and its business scope.

According to China's WTO commitments, all foreign-funded financial institutions will enjoy complete national treatment until 2006. This will mean that a foreign-funded banking institution can provide the same products as those provided by Chinese-funded banks. According to the foregoing two regulations, only foreign-funded banks (excluding branches and representative offices) can provide the same RMB products to Chinese residents.






# Chapter 2

# SUPERVISION

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# SUPERVISORY AUTHORITIES

## ¶5-010 Introduction

The supervisory and regulatory system of the financial sector in China has changed many times with the evolution of the economic system from planned economy to market-oriented economy. The fundamental framework of the current financial supervisory system was formed in 2003 when CBRC was established to take over the responsibility of banking supervision from PBC.

The supervision of the banking and financial sector in China is undertaken by five main supervisory and regulatory authorities:

- PBC;
- CBRC;
- CSRC;
- CIRC; and
- SAFE.



They cooperate with each other with a division of supervisory responsibilities and functions.

All compliance requirements relating to banking and finance in China are regulated and examined by the above-mentioned five authorities. Their compliance requirements are therefore related to every banking transaction. PBC, CBRC and SAFE supervise most of banking transactions whereas CSRC and CIRC supervise only a small part of these transactions.

Each of these supervisory authorities will be introduced in three parts: history and legislation, responsibilities and functions and institutional structure. In particular for PBC and SAFE, the monetary policies of PBC and the special terms used by SAFE will be stated in their sections respectively.

Existing supervisory framework adopts the so-called "separate operation, separate administration" principle, which means isolation of commercial banking, securities and insurance industries. It has brought a lot of inconveniences and risks because of the isolation. As such, Chinese government is considering further reform to build up a mega supervisory body covering all functions of the above-mentioned five government agencies.

# CENTRAL BANK: PEOPLE'S BANK OF CHINA



## ¶5-100 Introduction

The People's Bank of China (PBC) has been China's central bank for 26 years since 1983. It is a department directly governed by the central government of China, the State Council, and reports to the State Council's premier. With its headquarters in Beijing, PBC serves as a governmental ministry. It is not an independent central bank like its equivalents in other countries, such as the Federal Reserve System in the USA or the Bank of England in the UK which are directly responsible to their parliaments instead of the central governments.

## ¶5-110 History and legislation of PBC

It is well known that the PRC was established in 1949 following the change in the Chinese government. The change was caused by the Chinese civil war from 1946 to 1949. The Kuomintang (China Nationalist Party) lost the war and the Communist Party took over power to govern the mainland of China. In fact, as early as December 1948, PBC was already established in Shijiazhuang, a city controlled by the Communist Party at that time. With the founding of the PRC, the head office of PBC was then moved to Beijing, the capital city of the PRC, where it served as one of the departments of the central government from October 1949.

From 1949 to 1978, PBC gradually became the only bank in China with the adoption of a centralised planned economic system since there was no other commercial bank in China during this period. PBC then undertook the dual function of both central bank and commercial bank.

Beginning from 1979, at the initial stages of reforms and opening-up to the outside world, China gradually transformed its economic system from one that was planned to one that was market oriented. The banking system in China also began to evolve from the "mono-bank" system to a diversified modern banking system.






In September 1983, the State Council decided that PBC should only act as a central bank. Before, PBC had been concentrating on the formulation of monetary policies and supervision of all types of financial institutions in China. With the development of the financial industry and the establishment of CSRC, CIRC and CBRC in succession, PBC ceased engagement in direct supervision of financial institutions. Some functions of PBC still remain, including anti-money laundering and personal credit record administration in the bank's daily operation.

### PBC legislation

The *Law of the People's Republic of China on the People's Bank of China* was passed by the Third Plenum of the Eighth National People's Congress on 18 March 1995 and confirmed PBC's legal status as the central bank.

In March 2003, the First Plenum of the Tenth National People's Congress approved the *Decision on Reform of Organisational Structure of People's Bank of China*, shifting the supervisory functions relating to banking institutions, asset management companies, trust and investment companies and other depository financial institutions from PBC to CBRC which was established in order to take on these supervisory functions of the banking industry.

On 27 December 2003, the Standing Committee of the Tenth National People's Congress approved at its Sixth Meeting the amendment to the *Law of the People's Republic of China on the People's Bank of China*. The revised law defines the role of PBC in three aspects:

- formulate and implement national monetary policies;
- safeguard overall financial stability; and
- provide financial services.

## ¶5-120 Responsibilities and functions of PBC

The primary responsibilities of PBC can be described as follows: under the leadership of the central government, to formulate and implement monetary policies of China, to prevent and eliminate financial risks, and to ensure financial stability of the economy. PBC shall assume its responsibilities, perform its functions and carry out its operations independently according to law and shall be free from intervention by local governments, governmental departments at various levels, public organisations and individuals.

All the capital of PBC is invested and owned by the State. PBC is required to report to the State Council its decisions concerning the annual money supply, interest rates, exchange rates and other important issues specified by the State Council for approval before they are to be put into effect. PBC is also obliged to submit work reports to the Standing Committee of the NPC on the implementation of the monetary policies and the performance of the financial industry.

According to the amended *Law of the People's Republic of China on the People's Bank of China*, adopted by the Sixth Meeting of the Standing Committee of the Tenth National People's Congress on 27 December 2003, PBC performs the following major functions:

- promulgate and enforce relevant orders and rules for the performance of its responsibilities;
- formulate and implement monetary policies in accordance with law;
- issue RMB and control its circulation;
- regulate financial markets, including the inter-bank loan market, inter-bank bond market, foreign exchange market and gold market, etc;
- prevent and mitigate systemic financial risks to ensure national financial stability;
- maintain the RMB exchange rate at adaptive and equilibrium level;
- manage State foreign exchange and gold reserve;
- manage State treasury as fiscal agent;
- make payment and settlement rules in collaboration with relevant departments and ensuring normal operation of payment and settlement systems;
- provide guidance to anti-money laundering work in the financial sector and monitor money-laundering related suspicious fund movement;
- develop statistical system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast;
- administer the credit reporting industry in China and promote the building of credit information system;
- participate in international financial activities in the capacity as central bank;
- engage in financial business operations in line with relevant rules; and
- perform other functions as prescribed by the State Council.

## ¶5-130 Monetary policy and monetary policy committee of PBC

According to Art 12 of the *Law of the People's Republic of China on the People's Bank of China*, PBC shall establish a monetary policy committee (Monetary Policy Committee), whose responsibilities, composition and working procedures shall be prescribed by the State Council, and whose monetary policies are to be filed with the Standing Committee of the National People's Congress. The Monetary Policy Committee shall also play an important role in macroeconomic management and in the formulation and adjustment of monetary policies.






The general objective in the formulation of monetary policies by PBC is to maintain the stability of RMB and to promote economic growth. PBC usually adopts policy instruments such as the reserve requirement ratio, central bank primary interest rate, rediscounting, central bank lending and open-market operation, etc, to achieve this goal.

The Monetary Policy Committee is a consultative entity for decision-making of monetary policies. Its responsibility is to advise on the formulation and adjustment of monetary policies and policy targets for a certain period, application of monetary policy instrument and major monetary policy measures, and the coordination between monetary policy and other macroeconomic policies. The Committee plays its advisory role on the basis of comprehensive research of macroeconomic situations and the macro targets set by the government.

The Monetary Policy Committee consists of the Governor and two Deputy Governors of PBC, a Deputy Secretary-General of the State Council, a Vice Minister of SDRC, a Vice Finance Minister, the Governor-General of SAFE, the Chairman of CBRC, the Chairman of CSRC, the Chairman of CIRC, the Commissioner of National Bureau of Statistics, the President of the China Association of Banks and an expert from the academia.

The Monetary Policy Committee performs its functions through its regular quarterly meetings. An ad hoc meeting may be held if it is proposed by the Chairman or endorsed by more than one-third of the members of the Committee.

The opinions delivered in the meetings of the Monetary Policy Committee will be written down in the form of "minutes of meetings". These minutes or any resulting policy advice, if approved by more than two-thirds of the members, are to be attached as an annex to the proposed decisions of PBC on the annual money supply, RMB interest rates, RMB exchange rates or other important monetary policy issues to be reported to the central government.

# Institutional structure and subsidiary institutions of PBC



## ¶5-140 Institutional structure

At present, PBC adopts a four-level institutional structure to establish its subsidiaries, which consists of a head office, branches, sub-branches and outlets. Its head office is located in Beijing, with branches in several metropolises, sub-branches in cities and outlets in counties.

- Foreigners are allowed to remit abroad their legal RMB incomes and unused foreign exchange brought or remitted into China in advance. Foreigners are also allowed to reconvert the extra RMB to foreign currencies when needed.
- With reference to capital account transaction, which includes personal investment, purchase and sale of stocks denominated in foreign currencies, domestic residents, in most cases Chinese citizens shall comply with relevant regulations.
- Foreigners can buy houses in China for residential purpose. The RMB proceeds from sale of house are allowed to be converted into foreign currencies and remitted abroad.
- With reference to personal foreign exchange account administration, individuals are allowed to open an operation account if relevant licences are issued by the State Administration of Industry and Commerce. They are also allowed to open personal saving accounts.
- Foreigners are allowed to open personal saving accounts if they can provide valid ID. They are also allowed to open a special account for the purpose of investing in China.
- Cash withdrawal from personal accounts is subject to relevant foreign exchange regulations.
- Control over cash accounts is more rigorous than that of exchange-on-hand accounts. For example, the cash withdrawal limit or international payment of the cash account is less than that of the exchange-on-hand account.






# Chapter 5

# EXTERNAL ENVIRONMENT OF COMMERCIAL BANKS

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# ROLE OF COMMERCIAL BANKS

## ¶30-010 Introduction

The Chinese economy is run mainly by commercial banks. They provide the bulk of the finance and credit needed. China has a high savings rate as most Chinese prefer to put their savings into banks rather than stocks or bonds. Thus, commercial banks are able to provide most of the country's investment capital.

Commercial banks were first established in the 1980s. According to statistical data published by PBC, CBRC, CSRC and CIRC in October 2008, the commercial bank sector consisting of all banking institutions such as commercial banks, urban and rural cooperatives held assets amounting to about USD9.13 trillion and accounts for 80% of the total financial assets in China. USD9.13 trillion represents about two and a half times the annual GDP of China. In comparison, the total market value of the stock market in China is only about USD1.78 trillion, representing about one-fifth of the total assets held by the commercial bank sector in China. Although the role of commercial banking in the US economy is diminishing, it is still strong in UK, Japan and Germany. In China, the commercial banking industry will continue to play a leading role in its economy.

The significant role played by commercial banks in China has also led to immense pressure on them to improve on their efficiency. The current model of the commercial bank in China differs greatly from the model in the 1980s and 1990s. At that time, the bank had to extend loans to state-owned enterprises. Due to the low productivity and lack of efficiency of these state-owned enterprises, most of the loans became non-performance loans and resulted in a heavy burden to the commercial bank sector. With the market-oriented economy reform of the country, China's commercial banking industry has gradually evolved from a functional department under the planning economy system to an active participant in the market economy system. Presently, all commercial banks function as financial enterprises. One significant achievement was the purchase of 19.9% of the shares of the Bank of Communications, the fifth largest commercial bank headquartered in Shanghai, by the Hongkong and Shanghai Banking Corporation (HSBC) in August 2004. Furthermore, the Industrial Bank of China, the Bank of China and the China Construction Bank have achieved their reform goals to introduce foreign strategic investors and become public listed companies both in Hong Kong and Shanghai. At present, three Chinese banks, ICBC, CCB and BOC, are ranked as the top three largest banks in term of market value, of which the ICBC earned USD16 billion in 2008 and became the most profitable bank in the world.

The evolution of commercial banks is caused by both internal and external factors.

## FINANCIAL MARKETS



## ¶30-100 Introduction

A financial market refers to the concourse where financial commodities are traded. It facilitates the flow of funds from surplus parties to deficit parities in order to finance investments. Generally, a market consists of the participant, the commodity and the price. The participant refers to the buyer, seller, intermediary and supervisor. The commodity includes all kinds of financial instruments and the price refers to the amount of money asked for or given in exchange for a certain financial commodity.

Buyers and sellers in financial markets are generally corporations, governments and individuals. Intermediaries are institutions or individuals who serve as the go-between of the flow of funds and include commercial banks, investment banks, insurance companies and individual brokers. The supervisor in the financial market is the regulatory authority, eg the central bank or the banking, security or insurance regulatory commission.

Commodities in the financial market are the objects of financial transactions between the buyer and the seller, and they are the main classifying standards for financial markets. For example, if the commodity is foreign exchange, the relevant market would be called the foreign exchange market. If the commodity is inter-bank lending, the market is called the money market.

The prices of different financial instruments are expressed in different forms. For example, in the foreign exchange market, the price refers to the exchange rate, and in the money market, the price refers to the interest rate.

## ¶30-110 Classification of financial markets

Financial markets facilitate the flow of funds from surplus units to deficit units. However, there are many forms of financial instruments and it is important to classify the financial market correctly in order to understand how it works.

Financial markets can be divided into different types according to different standards. The most common standards and corresponding classifications are as follows:

- *Object of financial transaction*: Depending on the object of the financial transaction, ie the kind of financial instruments, financial markets can be divided into money market, capital market, foreign exchange market,



gold market, futures market, insurance market, etc. Financial markets that facilitate the flow of short-term funds with maturity of one year or less are known as money markets, while those that facilitate the flow of long-term funds with maturity of more than one year are known as capital market. Financial markets specialised in trading of foreign exchange, gold, futures and insurance products are called foreign exchange market, gold market, futures market and insurance market respectively. This is the most widely used classification.

- *Delivery method*: Depending on the delivery method, financial markets can be divided into spot market, futures market and option market. The spot market refers to that in which the delivery of the financial instrument and corresponding amount of funds shall be made simultaneously or within a period not more than three business days. The futures market refers to that in which the delivery shall be made at a concerted date in the future and the option market refers to that in which at the concerted date, the delivery can be made or abandoned according to the option contract.
- *Procedure of the transaction*: Depending on the procedure of the transaction, financial markets can be divided into primary market and secondary market. The primary market facilitates the issuance of new financial instruments, while the secondary market facilitates the trading of existing instruments.
- *Concourse of the transaction*: Depending on the concourse of the transaction, financial markets can be divided into visible market and invisible market. The visible market refers to that which has a place to facilitate the transaction such as a stock exchange or futures exchange. The invisible market refers to that which has no physical place and conducts transactions through all kinds of telecommunication tools. Most transactions on the financial markets in the world take place in invisible markets.

## Outline of financial markets in China

## ¶30-120 Types of financial markets

Although some financial markets made their appearances before 1949, their turnovers were very small and they were not systematic and complete. Major development of the financial markets in China occurred in 1979 when the reform and opening up to the outside world was started. Along with the booming domestic economy, the financial markets in China have developed steadily since the first bill discounting business was transacted in Shanghai in 1980. China has now established a modern financial market system, which consists of the money market, capital market, foreign exchange market, gold market, futures market and insurance market.

The money market is used to facilitate the transfer of short-term funds with maturities of one year or less from individuals, corporations or governments that possess excess funds to those in deficit. Even investors who focus on long-term securities tend to maintain some money market instruments for liquidity. Generally, the fund transfer is made against relevant financial instruments such as government bonds, commercial bonds, commercial papers, lending agreements, repurchase agreements and bank accepted drafts. These financial instruments are issued or offered by corporations and governments in order to acquire short-term funds. They are originally issued in the primary market, but can be sold in the secondary market. Thus, they provide liquidity to investors. Most units and financial institutions hold money market instruments for this reason. The money market in China can be further divided into the short-term bond market, bill market and lending market.

The capital market is used to facilitate the transfer of long-term funds with maturities of more than one year. Long-term financial instruments consist of government bonds, bonds, stocks and securities. Accordingly, the capital market can be further divided into the government bond market, long-term bond market and stock market. Whereas the stock market provides the channel for listing companies to raise funds for equities, sometimes the capital market only refers to the stock market in a narrow sense. In China, the concept of securities market is used instead of the stock market.

The foreign exchange market is where currencies are bought and sold. In foreign exchange transactions, notes and coins rarely change hands. They involve the exchange of a demand deposit denominated in one currency for a demand deposit denominated in another currency. The transactions can be made for immediate delivery on the spot or for future delivery on the forward market. The foreign exchange market in China is still at a developing stage due to the fact that the local currency RMB is not freely convertible. The






foreign exchange market is made up of two components: international and domestic. The former is for transactions between foreign currencies and the latter is for transactions between RMB and foreign currencies. Commercial banks are the key players in foreign exchange markets in China.

The gold market is where noble metals are bought and sold. There is a gold exchange in Shanghai which specialised in dealing with transactions of gold and platinum.

The futures market is where futures are bought and sold. There are many types of futures: commodity futures, financial futures and derivative futures. The futures market in China is only for commodity futures such as copper, aluminium, natural rubber, fuel oil, wheat, cotton, soybean and corn.

The insurance market is where insurance products are bought and sold. China's insurance market is growing sharply and has huge potential.

## ¶30-130 Lending markets

Financial institutions deal with money, absorbing funds as liabilities and using funds as assets. However, as their liabilities and assets have different durations and maturities, they often face an unbalanced situation of funds, eg when assets need more funds and their existing liabilities are unable to satisfy the demand. As such, the financial institution has to seek short-term financing in the money market. On the other hand, if the assets need less funds temporarily and existing liabilities possess redundant funds, which could be used to obtain higher yields, the financial institution would want to lend its surplus funds to a deficient party. This situation results in short-term financing activities occurring between financial institutions and they are called lending or interbank lending. The lending market refers to the concourse where the lending is conducted.

The earliest lending market in the world appeared in USA in the 1920s, but the most famous lending market is that of London in UK, where the primary interest rate is known as LIBOR (London Inter Bank Offer Rate) and serves as the benchmark interest rate globally.

China's lending market originated in 1986 when the State Council approved interbank RMB lending between the four specialised banks and their branches. From 1986 to 1996, many regional RMB lending markets were established in the developed areas and cities, but a nationwide lending market was absent. Finally, due to the demand of economic development, PBC launched a national lending system, called the National Interbank Funding Centre (NIFC), on 3 January 1996.

On 9 July 2007, PBC promulgated a regulation related to RMB lending, *Regulations on Inter-bank Lending*, which was effective from 6 August 2007. It stipulates detailed requirements in this market.

# AN OVERVIEW OF LEASING IN CHINA



## ¶63-010 Introduction

Leasing refers to a contract granting usage or occupation of property or other assets in exchange for a specified rent. It usually involves in two parties: lessor and lessee. Lessor refers to the party that possesses the legal ownership of the assets subject to leasing and transfers the usage of the assets to the lessee against the rent determined in advance with the contract. Lessee refers to the party that purchases the usage rights of the assets in leasing transactions against the rent determined in advance with the contract.



Leasing serves as the most significant funding channel for companies and individuals in the world, especially in the US and Europe. But up to now, China's leasing industry has not succeeded to enter into a robust growth in more than twenty years and the percentage of leasing industry in total national fixed assets investment is currently only 1%, which is much lower than 30% in the US and 20% in Europe. Such a low percentage indicates that some problems still exist in China's leasing industry. However, although many problems exist, the industry still possesses prospects of development.

Due to that China met its WTO commitments to open its financial services industry completely to foreign companies in December 2006, many foreign investors have established their financial leasing companies in succession. It indicates that China's leasing industry will realise a rapid increase in the near future. Therefore, it is beneficial to know something about leasing in China.

China has possessed a long history in land leasing since China became an agricultural country 3,000 years ago. In ancient China, the landlord leased their land to the peasant who served as a tenant and submitted land rents to the landlord. The land rent could be in form of kind such as grain grown on the leased land, or may be in form of money. Of course, with the founding of the PRC in 1949, all land in the mainland China was nationalised and land leasing business stopped since then. From 1949 to 1979, China adopted a centralised planning economy and all modern financial activities were replaced by Government planning, saying nothing of the leasing industry.

Since 1979, China has begun to reform and open to the outside world, market economy system has been gradually introduced and leasing as an industry reappeared. The most significant event was the establishment of two leasing companies: one is China Oriental Leasing Company Limited, which was a

Sino–Japanese joint venture founded in February 1981; the other is China Leasing Company Limited, which was a domestically-invested enterprise founded in July 1981. These two companies started their businesses immediately and provided a new financial channel for enterprises other than banking loans. This situation indicated that modern leasing had been introduced into China mainland formally. Up to now, modern leasing industry has experienced the following four stages since 1980s.

### First stage

*1981 to 1986: the initial stage*

During this period, several leasing companies were established and some leasing projects started. However, the leasing business possessed a very small volume due to restrictions both internally and externally. The internal restriction mainly included lower registered capital, excessive non-leasing businesses and inadequate expertise, etc. The external restriction includes lack of relevant regulations, laws, accounting guidance and taxation incentives supporting to leasing industry.

### Second stage

*1987 to 1996: the booming stage*

During this period, new companies appeared in succession and the total assets of leasing companies expanded rapidly. However, most assets did not focus on leasing but other financial business such as deposit and lending. Due to the same reasons as above-mentioned, fast development of businesses concealed many problems and resulted in the adjustment of leasing industry in China from 1997.

### Third stage

*1997 to 2000: the adjusting stage*

After 16 years' exploring, China's leasing industry entered into an adjusting period. Two major reasons led to adjustments: liquidity problem and arrears of rents. Due to the fact that most financial leasing companies involved in high interest rate deposit and lending activities and the duration of deposits was much shorter than that of leasing project, when deposits matured, leasing companies could not get enough rents to cover the withdrawal of deposits and liquidity problems broke out. Meanwhile, due to having no special laws to regulate the leasing business, this situation resulted in arrears of rent from lessees. Under such circumstances, China's leasing industry confronted a large adjustment. Most leasing companies slowed down their businesses and began to increase their registered capitals. A few did not survive and became bankrupt, including Guangdong Internal Leasing Co Ltd and China Huayang Financial Leasing Co Ltd, etc.






### Fourth stage

*2001 to present: the recovering stage*

During this period, China started to promulgate new regulations and to perfect existing laws and regulations related to leasing business. The regulatory environment of leasing industry has become more transparent and clear. Although many problems exist, the industry still has broad prospects of development.

China has signed the bilateral agreements with the US and Europe to allow foreign businesses to launch product sales promotion by means of financial leasing, paving the way for foreign banks, transnational companies and leasing firms to enter China's leasing market.

Foreign banks have founded securities, insurance and financial leasing institutions in China to set up a platform to make preparations for further expansion of the financing leasing operation on this huge market. At the same time, many famous transnational companies including GE, IBM, Caterpillar, Ingersoll–Rand, HP, Siemens and Volkswagen, etc, have been or are introducing their respective financial services and leasing marketing system into China by founding leasing companies. At present, transnational companies in sectors such as trunk-line aircraft, medical apparatus and communications equipment have accounted for a major market share in China through leasing marketing. All transnational companies and leasing firms are accelerating market expansion in China.

Especially after the new financial leasing regulation was promulgated by CBRC on 23 January 2007, commercial banks are allowed to establish leasing companies and seven bank-owned companies have been set up.

## Outline of China's leasing industry



## ¶63-020 General

In comparison with many developed countries, China's leasing industry is still at an initial stage. According to statistics from the *World Leasing Yearbook 2007*, total business volume of the global leasing industry reached USD582 billion, of which the US possessed a business volume of more than USD204 billion; Japan, more than USD62 billion; and Germany, more than USD40 billion, ranking the top three in the world. China was far behind the three with only USD4 billion in leasing business volume, ranking 23rd in the world.

In addition, we can use an indicator called "market penetration rate", which means the proportion of leasing industry in fixed assets investment, to measure the development level of the leasing industry. The higher the market penetration rate is, the higher the level is. Some countries' data are as follows: US, 31.1%; Canada, 20.2%; UK, 15.3%; Germany, 9.8%; Japan, 9.3%; Hungary, 19%; and Czech Republic, 18.6%. But the rate of China was only 2%. Two reasons resulted in such a lower rate. Firstly, the number of leasing business enterprises currently is limited and they have no definite positioning on the market to form a powerful industrial chain; secondly, many Chinese enterprises are facing rising inventories and low rate of funds turnover. They have relied too much on banks in various links from production and circulation, while making a little investment in the purchase of equipment for leasing.

In general, an industry shall include participants and game rules. With reference to China's leasing industry, the participants include leasing companies (namely lessor), leasing customers (namely lessee) and regulators etc. The game rules include laws and regulations relating to supervision, administration, accounting and taxation of leasing industry.

## ¶63-030 Leasing companies

A leasing company is the most important player in leasing market and it serves as the lessor. At present, there exist three kinds of leasing companies under the administration of three different departments, which conduct examination, approval and supervision of the leasing industry in China.

- Firstly, non-banking financial institutions, which are approved and regulated by PBC or CBRC. This kind of lessors can be further classified into four types:
  - *Financial leasing companies*: established before September 2003 when CBRC was established. Since then, all financial leasing companies have been approved and regulated by CBRC solely. These financial leasing companies are regarded as financial institutions and are allowed to offer financial leasing and operational leasing services as well as other financial businesses such as lending in money markets. Currently there are about 19 financial leasing companies that are licensed by CBRC, including China Foreign Trade Financial Leasing Company, New Century Financial Leasing Co Ltd, Zhejiang Financial Leasing Co Ltd, Jiangsu Financial Leasing Co Ltd, CCB Financial Leasing Corporation Ltd, ICBC Financial Leasing Corporation Ltd, Bank of Communications Financial leasing Co Ltd, etc;






  - *the Asset Management Corporation*: includes the leasing department of trust and investment companies, which are allowed to engage into leasing business. Currently they amount to about 50; and
  - *the leasing department of finance companies*: allowed to involve in leasing businesses. Currently they amount to about 80.

  Of course, with the latest development of China's leasing industry, the last two types of leasing bodies have been gradually retreated from markets.

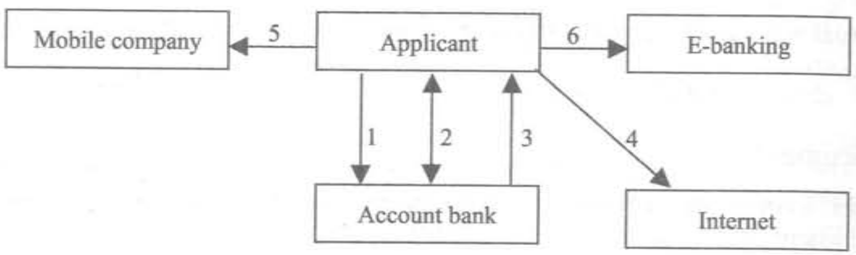
- Secondly, Sino–foreign joint venture leasing companies which are approved and regulated by Foreign Investment Bureau of MOC. They totally amount to 42 companies, including the above-mentioned China Oriental Leasing Company Ltd and other foreign-invested leasing companies set up by such world famous manufacturing "big players" as GE, IBM, Caterpillar, Ingersoll–Rand, HP, Siemens and Volkswagen, etc.
- Thirdly, non-financial domestic leasing companies which are under the administration of Domestic Trade Bureau of MOC. They are affiliated to manufacturing factories with business focus on products' promotion and they have neither foreign investment nor financial license. The number of this kind of companies is unclear because such statistics is not available. The most important issue is that there is no any special regulation or law governing non-financial domestic leasing. At present, there are about 132 non-financial domestic leasing companies that are licensed by MOC, including New Era Leasing Co Ltd, Wanxiang Leasing Co Ltd, Sinohydro Leasing Co Ltd, Fuji Xerox Leasing (China) Ltd in Shanghai, and Deutsche Leasing (China) Co Ltd, etc.

The competition among the three types of lessors is not on equal conditions in terms of legal position, access standards, business scope and tax treatment, with the tendency of "opening to the outside, but restricting inside". Due to the over control and supervision practice, the whole leasing sector lacks a steady source of funds as well as strength for development. At the same time, the high threshold for financial leasing and automobile financing service companies has kept many domestic leasing companies out of the sector.

## ¶63-040 Leasing market

The leasing market in China can be figured out by using two major indicators, one is the leasing business volume and the other is the leasing market penetration rate. The following two tables show these two indicators from 1980s to 2000s.

**Diagram 80-1**




(1) The corporate customer goes to the business hall of its account bank to submit the relevant materials to apply for corporate E-banking.

(2) The account bank signs some agreements with the applicant clarifying the responsibilities and rights of both parties.

(3) The account bank sets the relevant parameter and information in its computer system to allow access to the applicant's account and gives the password to the applicant.

(4) For Internet banking, the corporate customer logs onto the website of the account bank to load the secure certificate so that transactions can be done. For telephone banking and mobile phone banking, this step is not necessary.

(5) For mobile phone banking, the applicant corporate customer goes to the mobile phone company to obtain the access cards. For telephone banking and Internet banking, this step is not necessary.

(6) The corporate customer can now conduct its daily banking businesses via corporate E-banking.






# Chapter 12

# PERSONAL BANKING

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## ¶90-010 Introduction

In most developed countries, banking offered to individual persons is divided into personal banking and private banking. The former refers to deposits and withdrawals of cash, use of cheques, bank cards and payments, and the latter refers to the asset management of wealthy personal customers.

There is no private banking in China up to now even though some commercial banks have provided VIP banking services to their valuable personal customers.

Personal banking refers to banking businesses offered to individuals and households, which are divided into the following three types:

- personal liabilities business, which refers to the individual's saving account and debit card account;
- personal assets liabilities, which refers to the individual's loans such as house mortgage loan, auto loan, consumer loan and credit card; and
- personal intermediate business, which includes payments, receipts, custodian, safe deposit box, cheques, agency, etc.

By 31 March 2009, the RMB personal deposits of the banking sector in China amounted to RMB24,307 billion and accounted for 46.51% of the total RMB deposit. The foreign currency personal deposit amounted to USD56 billion and accounted for 28.13% of the total foreign currency deposit. Personal loans amounted to about RMB3,942 billion and accounted for about 10.78% of the total loans of the banking sector.

Personal banking constitutes the bulk of the businesses of the banking sector in China. However, personal banking is not the lucrative part of banking businesses for the following reasons:

- interest income is the main income of a commercial bank and personal loan accounts for only 10.78% of the total amount of the loan;
- many banking services are free or come with very lower fees that do not commensurate with the cost; and
- many new products and financial innovation require large amounts of investment that cannot bring income for the current account period.

However, with the large population of China, personal banking may become profitable in the future.

Personal banking is expected to develop at a faster pace than corporate banking in China:

- Firstly, China has enjoyed strong and increasingly consumption-driven GDP growth ranging from 7% to 10% in recent years. Even despite the global economic downturn that started from 2007, China's GDP growth rate will still reach about 8% in 2009. Economy prosperity will lead to higher demand for personal loan products such as auto loans, credit cards and house mortgages.

- Secondly, the demand for traditional corporate banking products, particularly deposits and loans, will decrease gradually as corporate customers, especially the national enterprises, are seeking to centralise their cash management and "stocks" of deposits held by each regional operation will be greatly reduced. Besides, the development of capital markets in China will reduce the demand for bank loans.
- Thirdly, the central bank, PBC is expected to gradually deregulate interest rates and this will significantly reduce interest margins on both deposits and corporate lending.

ı accordance with the time schedule of the opening-up of the banking sector ; agreed when China accessed WTO in 2001, all banking businesses including ɔth RMB and foreign currency personal banking should be opened to all ɔreign-funded financial institutions by the end of 2006 and no any geographic mit shall be imposed. This commitment was honoured punctually by the hinese Government. From 11 December 2006, foreign-funded banks can then ɔmpete with Chinese-funded commercial banks for a share of its personal ınking services. Banks such as Citibank and HSBC have opened both RMB ıd foreign currency personal banking businesses in developed cities such as ıanghai, Beijing, Guangzhou and Shenzhen. They focus on attracting high-ıd personal customers from the Chinese-funded banks and do not provide any free services to their customers. To meet the challenges of the foreign-ınded banks, many Chinese-funded banks are improving their services to ɜrsonal customers and developing financial innovations in the personal ınking area.

 



# CLASSIFICATION OF PERSONAL BANKING BUSINESSES



## ¶90-020 General

Most banks divide their personal banking businesses into the following types:

- Personal saving deposit business: This refers to traditional individual deposits denominated both in RMB and foreign currencies, which are in the saving or settlement accounts of the individual. It usually includes all kinds of RMB and foreign currency deposits such as:
  - demand deposit;
  - time deposit;
  - RMB lump-sum deposit for lump-sum withdrawal account;
  - RMB small deposit for lump-sum withdrawal account;
  - RMB lump-sum deposit for small withdrawal account;
  - RMB principal deposit for interest withdrawal account;
  - RMB time or demand optional account;
  - foreign currency cash deposit; and
  - foreign exchange deposit.
- Personal consumer credit business. This refers to all kinds of loans by the commercial bank to the individual such as:
  - house mortgage loan;
  - auto loan;
  - educational loan;
  - loans for refurbishing houses;
  - travel and vacation loan;
  - consumer durables loan;

- personal loan secured by certificate of deposit (CDs); or
- government bonds, etc.

- Personal intermediate business. This refers to the fee-based banking services offered to the individual such as:
  - daily payments for water, gas, electricity, milk, traffic cards, communications;
  - funds transfers for securities investment; and
  - insurance business.

  In addition, consultant business, individual financing, individual assets management, foreign exchange trading, etc are also categorised as personal intermediate business. Besides, money exchange is also an important personal intermediate banking business mainly provided to foreign travellers.
- Personal bank card. This refers to the debit card or credit card issued by the card issuing bank to the individual to facilitate relevant transactions such as cash withdrawal and deposit, self-banking, use for purchases in stores, hotels and restaurant, etc. The personal bank card is a combination of personal deposit, consumer credit and intermediate business.
- Recently, some banks have started to provide asset management, private banking, gold trading and option trading services to their personal customers.

## ¶90-030 Personal saving deposit business

China is a country with a high saving rate — about 40%. This indicates that the Chinese deposit about 40% of their income into the bank. By 31 March 2009, total deposits of the banking sector in China amounted to RMB53,631 billion, including both RMB and foreign currency deposits. Personal saving deposits provide a stable fund resource for the commercial bank in China. Therefore, banks offer different incentives to attract personal deposits.

As the RMB interest rate is controlled by PBC and the bank is only allowed to float downwards its RMB deposit interest rate, the interest of RMB personal deposit is always the same in different commercial banks. However, since PBC has relaxed its control over foreign currency deposit interest rates, some banks have begun to offer differential interest rates for personal foreign currency deposits.

### Personal demand deposit

The personal demand deposit is also called the savings deposit or current deposit. It refers to a personal deposit which has no maturity period, limit on time and amount of deposit and withdrawal. It is the most basic and

 



conventional method of personal banking and is the basic financial asset management tool of the personal customer. Banks do not normally impose charges on the personal demand deposit.

Deposits may be made in RMB and foreign currencies, eg USD, HKD, EUR, JPY and GBP and so on. For personal foreign exchange trading, deposits may include other currencies such as CHF, CAD and AUD etc.

The main requirements of the personal deposit include:

- A minimum amount of personal demand deposit of one RMB. At the time of opening of a new account, the depositor shall fill in a deposit slip. On other occasions of deposits and withdrawals, the customer may choose the slip-free service. Upon the opening of a new account, the account bank will issue a passbook to the depositor, against which deposits or withdrawals can be processed. In order to ensure the safety of money, the deposit may set a password for the withdrawal of funds. In order to facilitate foreigners, most banks provide the depository slip with specification of both Chinese and English.
- The depository bank is usually called the account bank.
- The personal demand deposit is characterised by its convenience and flexibility. The depositor can make withdrawals or fund transfers at any time and the withdrawal and transfer may be completed swiftly through telephone banking or ATM services.
- The personal demand deposit account serves as the principal account of the depositor since the account may be automatically linked with other accounts such as credit card account, telephone banking account, cheque account and time deposit account passbooks so that funds can be transferred between these accounts and the demand deposit account.
- Interest of the demand deposit is calculated and settled quarterly on the 20th of March, June, September and December. The interest rate will be the interest rate for current deposits quoted on foregoing dates. If the account is closed prior to the date of interest settlement, the interest is calculated according to the interest rate applicable at the date of the closing of the account. Even if the rate is adjusted by PBC during the period between two interest settlement dates, or even the adjustment occurs for not only once, the applicable interest of the personal demand deposit shall remain the same, namely, the valid interest rate listed on the date of interest calculation or account closing.
- Generally speaking, almost every banking outlet shall provide RMB demand deposit to personal customers. Due to the legal requirement of using real name to deposit in personal saving account, all customers shall present a valid ID when opening a personal demand deposit account with any banking outlet. For Chinese citizens, the ID card shall be presented and for foreigners, passports shall be presented.