

**China to experiment with private banks**  
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China will launch a trial programme for private firms to set up banks, the country's banking regulator said today, with Internet giants Tencent and Alibaba reportedly among the first applicants.

Most Chinese lenders are state-controlled and banks founded by private companies are extremely rare, while access to lending is a key element of the Communist authorities' control of the economy.

At a key meeting in November the ruling party listed opening the banking industry to private investors as one of its major reform policies for the financial sector to introduce competition and help small enterprises obtain loans.

"We have selected a few private capital (investors) to jointly participate in the trial programme of (the setup of) five banks in the first batch," Shang Fulin, chairman of the China Banking Regulatory Commission, told reporters.

He was speaking at a briefing on the sidelines of the annual session of the National People's Congress, China's Communist-controlled legislature.

Alibaba and Tencent, which have been expanding their online finance business in recent years, Shanghai-based conglomerate Fosun, auto parts maker Wanxiang Group and six other private owned companies have been chosen to be the investors, the People's Daily quoted Shang as saying in an interview.

Each bank will have at least two "founders", Shang said at the briefing.

The banks will operate "independently", he said, and will assume responsibility for risks and losses as well as profits.

China's big state-owned lenders tend to channel the bulk of their lending to state enterprises, often at the urging of local officials, which can lead to the build-up of bad loans.

There is a widespread assumption that the government would not let a state bank fail.

The government previously recapitalised the four major banks – Industrial and Commercial Bank of China (ICBC), Bank of China, China Construction Bank, and Agricultural Bank of China – to the tune of tens of billions of dollars and carved out their bad loan portfolios before they listed minority stakes on the stock market.

Shang said the privately invested banks will focus on "serving small and micro-sized companies and the community".

Analysts welcomed the news as a step forward.

"A big problem of China's banking sector is that state-owned banks extend most of their lendings to state-owned companies," Shen Jianguang, a Hong Kong-based analyst with Mizuho Securities, said.

"It is very difficult for small and micro-sized companies and private firms to get a loan.

"There was no good solution to the problem and so now they are trying to open up (the sector)," he said. "This also will increase competition in the sector that has long been criticised as monopolised."

Shang did not give a timetable for the new banks to start operations.

"We will push forward the trial of the five banks in a prudent manner, approving one only after it is ready to go," he said.

"That means the timing of their launch of operation mainly depends on themselves."

Another key item on Chinese authorities' reform agenda is allowing banks to decide on the interest rates they pay depositors, after they loosened controls on lending rates last year.

China's central bank chief Zhou Xiaochuan said at the same briefing that was expected within two years.

"The liberalisation of deposit rates is definitely within our plan. I personally think it is very likely to be realised in the next one to two years," he told reporters. – Reuters, March 11, 2014.

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