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**China Construction Bank &  
Development of Village Bank in China**

University Honors in Business

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Spring, 2012

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## **I. INTRODUCTION (Abstract)**

In 2006, China Banking Regulatory Commission (CBRC) issued new regulations that allow commercial banks to open village banks. With the help of several favorable policies, village bank proliferated in rural China, and local economy benefited greatly since then. As a result of the increasing financial access, more and more families are alleviated from poverty and local businesses are expanding. People live in rural areas are demanding comprehensive financial services nowadays. Current village bank system is incapable to meet rural clients' needs or keep up with the rapid economic growth. This is because village banks are isolated from the broader national banking system, according to CBRC regulations, and thus unable to perform affordable long-distance money transaction and end-to-end account settlement.

Access to the national banking system would allow participating parties to not only collaborate through the same bank platform, but also retrieve clients' credit history. Open the national banking system to village banks could effectively help rural clients to grow financially, expand agricultural and farming businesses beyond the local area, and gain access to more comprehensive financial services. Village banks could also use the opportunity to develop new products and services, increase economic impact at rural area, and gradually increase profits.

China Construction Bank (CCB), as a major player of commercial banks that owns village banks, realized the market demands and potential benefits. This capstone paper examines the market situation of village banks and CCB's competitive advantages,

and concludes by recommending CCB to take feasible actions to promote the development of village banks and push the regulatory reform.

## II. INDUSTRY BACKGROUND

### Definition of Village Bank

Village bank, in China, is defined as a rural financial institution that provides credit and saving services to rural residents, providing protection, support, and development to agricultural development. The goal of village banks is to construct a stable and sustainable rural economy.

### Village Banks in Rural China

In 2006, China Banking Regulatory Commission (CBRC) enacted a new policy that opened the doors for commercial banks to enter the rural financial industry<sup>1</sup>. Later in that year, CBRC announced “Several Opinions on Adjusting and Relaxing the Access Policies for Banking Financial Institutions and Better Supporting the Construction of New Socialist Countryside<sup>2</sup>,” which specifically eased the threshold of opening rural financial institutions and encouraged the establishment of village banks. In 2007, the CBRC developed the “Interim Provisions on the Administration of Village and Town Banks” and “Guidelines for Examination and Approval of the Establishment of Village and Town Banks” to regulate village banks.

Within a half year of the new regulation and guidelines, the amount of village banks and the capital available for the rural financial market increased tremendously.

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<sup>1</sup> Ren, Changqing & Guo, Pei. *Microcredit Companies and Village Banks – Competition or Pluralism*. The German Technical Cooperation (GTZ) and the International Fund for Agricultural Development (IFAD) <<http://www.microfinancegateway.org/gm/document-1.9.24203/12.pdf>>.

<sup>2</sup> Ibid.

According to the ChinaDaily.com.cn, an official news-reporting agency in China, as of July 2011, there are more than 440 village banks operating in China and over 100 are under construction<sup>3</sup>. Total assets of the village banks amounted to ¥149.26 billion (equals to about \$22.96 billion on the news report date, 7/28/2011). Loans made available to villagers and rural residents raised up by about ¥56.86 billion (about \$8.7 billion) since the new regulation<sup>4</sup>. Data shows that there is a growing trend of new investment and huge development potentials in the industry.

As part of the national rural development programs in China, village banks are becoming the main force for rural financial institution reform. Village banks could efficiently reduce poverty population, increase household income, and lower the inequality in China.

### **Legal Framework**

Village bank, along with other types of rural financial institutions, is required to be registered as an independent legal entity that is tied to a specific locale<sup>5</sup>. These formal financial facilities are designed to fill the rural financial gaps and overcome the difficulties in asymmetric information that are typically seen in underdeveloped areas.

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<sup>3</sup> Xinhua. "440 Village Banks Operating in China." *440 Village Banks Operating in China*. Chinadaily, 28 July 2011. 08 April. 2012.

<[http://www.chinadaily.com.cn/bizchina/2011-07/28/content\\_12998992.htm](http://www.chinadaily.com.cn/bizchina/2011-07/28/content_12998992.htm)>.

<sup>4</sup> Ibid.

<sup>5</sup> "Adjustment on the Approval of the Newly Established Village Banks." *CBRC.gov*. China Banking Regulatory Commission, 25 July 2011. Web.

<<http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=20110727A9DE09A99442694BFFB1BE8483DE0900>>.

Village banks are dedicated to serve agriculture workers, rural area residences, and farmers with better services.

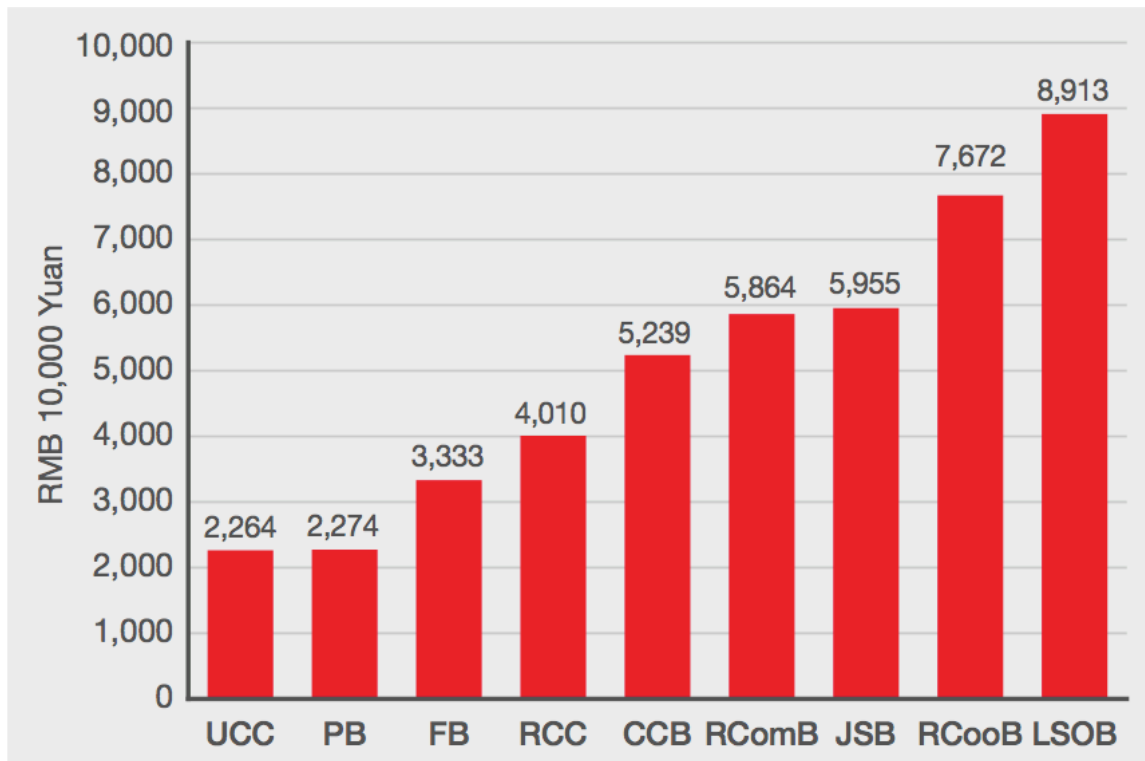
### **Competition**

As regulated in the “Interim Provisions on the Administration of Village and Town Banks,” village banks shall be founded by a commercial bank. There are roughly nine categories of initiating banks:

- 1) Rural Credit Cooperatives (RCC): originated by the People’s Bank of China in 1950’s, and specialized in providing credit in the rural areas. RCCs in general have more volatile interests rate, fluctuating between 0.9~2.0%.
- 2) Policy Banks (PB): designated to build financial structure to support infrastructure, exports, and food productions, such as the Agricultural Development Bank, China Development Bank, and the Export-Import Bank.
- 3) Foreign Banks (FB), such as HSBC.
- 4) Urban Credit Cooperatives (UCC): target urban corporations and individuals, equivalent to urban credit unions.
- 5) City Commercial Banks, focused on small and medium businesses in urban areas
- 6) Rural Commercial Banks (RComB): similar mission with RCCs, but have different internal financial structure.
- 7) Joint-Stock Banks (JSB).
- 8) Rural Cooperative Banks (RCooB).

- 9) Large State-owned Banks (LSOB): the most common and popular banks in China. Interest rate fluctuates between 0.9~1.7%.

Among all of the nine initiating financial institutions, large state-owned banks have invested the highest capital (¥89.13 million) into the village banking industry, while urban credit cooperatives (RCC) have the lowest at about ¥22.64 million (a quarter of that of the large state-owned banks). The graph below, cited from the Research on the Development of Village and Township Banks (VTBs) in China paper, shows the volume of capital invested in the village bank industry by each of the nine initiating financial institutions introduced above.



\*\*Note: the “CCB” in the graph refers the City Commercial Bank, not China Construction Bank.

FIGURE 1



Large state-owned banks are and need to be the major player of the village banks, according to the CGAP research on village banks in China<sup>6</sup>. Compared to financial institutions such as rural credit institutions and postal savings, formal banks possess the following advantages:

- a) Greater credibility and popularity,
- b) More capital access with combined private and industrial capital and additional policy support,
- c) Capability of providing full financial services that could better fit the diversified financial needs in rural areas,
- d) Stronger institutional framework with fewer staff, lower operating costs, and higher management efficiency<sup>7</sup>.

### **Who are the large state-owned commercial banks?**

The Chinese banking industry, especially for businesses and individuals, are dominated by state-owned commercial banks, the so-called “Big Four.” They are Industrial & Commercial Bank of China (ICBC), Bank of China (BOC), Agriculture Bank of China (ABC), and the China Construction Bank (CCB).

Industrial & Commercial Bank is the largest bank among the Big Four and also in China. It has the largest amount of asset, employees, and customers. It is the second largest in foreign exchange businesses and second in RMB clearing businesses.

Originally, ICBC was the bank to supply financial activities in China’s urban areas and manufactures.

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<sup>6</sup> Yang, Zaiping. *Research on Development of Village and Township Banks (VTBs) in China*. China Banking Association and Working Group on Inclusive Finance in China. October, 2011. P.10

<sup>7</sup> Ibid.

Bank of China, the first state-owned commercial bank in China, is specialized in foreign exchange transactions and trade businesses. It is known as the most profitable bank and is listed on the Hong Kong Stock Exchange since 2002.

Agriculture Bank of China also went IPO in 2010, and is listed on both the Hong Kong Stock Exchange and Shanghai Stock Exchange. It specializes in serving China's agriculture sector and majority of its customers are farmers.

China Construction Bank, as another important player in the banking industry of China, will be the main focus of the rest of this paper. I will introduce China Construction Bank in the following section.

### III. CHINA CONSTRUCTION BANK (CCB)

#### Background

China Construction Bank (CCB), as one of the “Big Four,” is the second largest bank by asset in China and the 108<sup>th</sup> largest institution in the world (ranked by the Fortune’s 500 under Industries: Commercial Banks<sup>8</sup>). It was founded in 1954 as an entirely state owned bank, and has gradually transformed to a full service commercial bank since 1994<sup>9</sup>. In September 2004, CCB went public and became a joint stock commercial bank<sup>10</sup>. It is listed as China Construction Bank Corporation (CCB) under Shanghai Stock Exchange<sup>11</sup> and Hong Kong Stock Exchange<sup>12</sup>. CCB owns a large branch network of approximately 13,629 branches all around China, with some international offices<sup>13</sup>.

#### CCB’s Village Bank Branch

Since the China Banking Regulatory Commission opened the legal channel for village banks, CCB has actively participated in developing village bank branches in rural areas. Until 2010, CCB owns and operates 18 village banks. Total capital of rural banks

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<sup>8</sup> CNN Money. <<http://money.cnn.com/magazines/fortune/global500/2011/snapshots/10786.html>>.

<sup>9</sup> China Construction Bank Official Website. History, Corporate Profile.  
<<http://www.ccb.com/en/newinvestor/history.html>>.

<sup>10</sup> Ibid.

<sup>11</sup> China Construction Bank Corporation, Listed companies B share, *Shanghai Stock Exchange*.  
<<http://www.sse.com.cn/sseportal/webapp/ennew/SSEEnnewrightSearchCmd?code=601939.SS>>.

<sup>12</sup> China Construction Bank Corporation, Company/Securities Profile, Investment Service Centre *Hong Kong Stock Exchange*.  
<[http://www.hkex.com.hk/eng/invest/company/profile\\_page\\_e.asp?WidCoID=939](http://www.hkex.com.hk/eng/invest/company/profile_page_e.asp?WidCoID=939)>.

<sup>13</sup> China Construction Bank Official Website. History, Corporate Profile.  
<<http://www.ccb.com/en/newinvestor/history.html>>.

was ¥910 million (equivalent of \$137 million in 2010), deposits from customer was ¥2,082 million (about \$314 million), and loan balance was ¥1,343 million (about \$202 million). Net profits from village banks was recorded at a total of ¥3.67 million<sup>14</sup> (about \$554,000).

According to its 2010 annual report, CCB has approximately 2.33 million corporate and institutional customers and about 4% are small and medium enterprises. The bank's personal customer base also kept steady growing, which has increased by 17.73 million in the past two years. CCB carries various automated banking services to both its corporate and individual clients. The bank has about 40,000 ATMs and 10,000 self-serving banking systems, spread out in urban and rural areas. The ratio of the number of transactions through electronic banking service to that through the physical counter is 142%. CCB has aggressively promoted its electronic banking, including mobile banking, and achieved remarkable results.

### **First Village Bank**

In December 2008, CCB opened its first village bank in Taojiang, Hunan, named CCB Taojiang Rural Bank<sup>15</sup>. (The picture on the left is the front look of CCB Taojiang Rural Bank.) It was a joint venture between CCB and several outside corporate and individual investors who are mostly from the local area. CCB owns 51% of the new

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<sup>14</sup> China Construction Bank Corporation Annual Report 2010. P.13

<sup>15</sup> Xinhua News. “建行首家村镇银行在湖南开业(First CCB Village Bank Opened in the Province of Hunan)”. December 9th, 2008.

<[http://news.xinhuanet.com/newscenter/2008-12/09/content\\_10479512.htm](http://news.xinhuanet.com/newscenter/2008-12/09/content_10479512.htm)>.

branch with about ¥25.5 million investment. The Taojiang branch now has made loans to 800 local farmers, self-starters, and families for a total of about ¥96 million<sup>16</sup>.

### **Products & Services**

CCB's village banks carry a wide range of financial services, including saving, checking, and loans, to people who were not able to access formal banking services. Target customers are farmers and self-employed individuals. CCB's village banks have also created various special loans tailored to cope with specific local financial needs and difficulties. To illustrate, use the Taojiang Rural Bank as an example, the branch has developed loans for forestry, farming machine, and local entrepreneurs. Individuals and businesses can take advantage of these services and use forestry property, farming machines, livestock, and rights to profit as collaterals to secure the loans. Group loans are also common in CCB's village banks. Both individuals and small-size businesses can form solidarity groups and take group loans. These special programs are built according to the local economic characteristics and strength.

### **Human Resources**

CCB has abundant staff and resources to support village banks' development. CCB village banks hire previous or existing CCB employees who are experts of the local area<sup>17</sup>. These employees were trained or have worked for CCB branches in nearby towns

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<sup>16</sup> Ibid.

<sup>17</sup> Xinhua News. "建行首家村镇银行在湖南开业(First CCB Village Bank Opened in the Province of Hunan)". December 9th, 2008.  
<[http://news.xinhuanet.com/newscenter/2008-12/09/content\\_10479512.htm](http://news.xinhuanet.com/newscenter/2008-12/09/content_10479512.htm)>.

or urban areas. They possess the skills to perform bank services. In addition, since they are required to have local knowledge to work at village banks, employees are expected to be experienced in communicating with the local customers and residences, without CCB providing additional training programs. Moreover, CCB reported that local employees are capable of providing basic financial literacy trainings to customers. Tellers and lobby managers at each branch are responsible for promoting CCB village bank products and services. This human resource structure has worked effectively in the past years.

### **Financial Resource**

As the second largest bank by asset and with a reported net profit rose of 26% last year, CCB has sufficient funds to substantiate village banks. In addition, in early 2011, as a Wall Street Journal reported, the Spain Banco Santander SA “will take a 19.9% stake in a joint venture with China Construction Bank Corp. to provide banking services outside of China’s major cities.”<sup>18</sup> With a strong and healthy financial structure and support from foreign investment, CCB is committed to help with local development and to facilitate individual entrepreneurs.

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<sup>18</sup> Yu, Rose. "Santander, CCB to Target Smaller China Towns." *Wsj.com*. Wall Street Journal, 28 Mar. 2011. Web. 12 Mar. 2012.  
<<http://online.wsj.com/article/SB10001424052748704396904576226413057280594.html>>.

#### **IV. DEMANDS IN VILLAGE BANK INDUSTRY**

Although village bank segment currently counts less than 1% of China Construction Banks total annual profit, sustaining operation and expanding service lines in village bank industry is crucial for the future of CCB. This section of the paper will examine the demand of village banks in China; and the followings will continue to explore the necessity for CCB to take actions to forward the development of this particular industry.

##### **Remittance Service – Labor Migration**

China's recent economic reforms have triggered substantial rural to urban migrants. Among about 120 million internal migrants in China, 70% are from rural areas<sup>19</sup>. According to the National Bureau of Statistics of China, urbanization rate increased from 36.22% in 2000 to almost 50% in 2010<sup>20</sup>. Rural to urban migration played an important role in the recent urbanization process. Rural residences migrate to nearly cities, while people live in inland poorer areas move to coastal areas.

Many rural residents volunteer to migrate to urban areas for jobs and looking to raise social status. Cities and coastal areas, compared to rural areas, have more employment opportunities and offers better wages. A CGAP research reports that

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<sup>19</sup> Omelaniuk, I. (2004), "Best practices to manage migration: China", Migration News, University of California at Davis, available at: [http://migration.ucdavis.edu/ceme/printfriendly.php?id=149\\_0\\_6\\_0](http://migration.ucdavis.edu/ceme/printfriendly.php?id=149_0_6_0).

<sup>20</sup> National Bureau of Statistics of China. (2011). *Basic Statistics on National Population Census in 1953, 1964, 1982, 1990, 2000 and 2010*, Cat. no. China Statistical Yearbook 2011, Table 3-5, National Bureau of Statistics of China, Beijing.

migrants would send back 75% of the money they earned, about \$14 million<sup>21</sup>, to their homes to support the families<sup>22</sup>. These transfers are called domestic remittance, which is the money transferred by migrate workers to their homes. As revealed in the National Bureau of Statistics of China, remittance accounts for 48.72% of the annual rural households' total net income<sup>23</sup>. Families use remittance to initiate new investment, pay for education, health care, and all kinds of consumptions, and increase household savings.

In the meantime, there are only 1.32 person employed in a rural family, on average<sup>24</sup>. Thus the migrant in the family is accountable for the majority of the households' income. He/she, from the rural family, is responsible to support 2.49 person's living, including the worker him/herself<sup>25</sup>. This is to show the importance of remittance to a typical rural household in China. Secured, timely, and affordable domestic money transfer service is crucial to improve rural families' living standards and, hence, alleviate poverty.

### **Long-distance Account Settlements**

In this paper, long-distance account settlements refer to certain financial services performed at a village bank branch other than the account's opening branch, include:

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<sup>21</sup> Murphy, R. (2002), *How Migrant Labor is Changing Rural China*, Cambridge University Press, Cambridge.

<sup>22</sup> Cheng, Enjiang, and Xu Zhong. *Domestic Money Transfer Services for Migrant Workers in China*. The Consultative Group to Assist the Poor, Oct. 2005. – Retrieved from CGAP database.

<sup>23</sup> National Bureau of Statistics of China. (2011). *Basic Conditions of Rural Households*, Cat. no. China Statistical Yearbook 2011, Table 10-18, National Bureau of Statistics of China, Beijing.

<sup>24</sup> National Bureau of Statistics of China. (2011). *Basic Conditions of Urban Households by Income Percentile (2010)*, Cat. no. China Statistical Yearbook 2011, Table 10-7, National Bureau of Statistics of China, Beijing.

<sup>25</sup> Ibid.



- Deposit and withdrawal of money
- Repay loans
- Borrow money
- Bill payments
- Access to account information (current balance) and manage account

The above listed services are fundamental to urban bank clients. Urban clients typically take the convenience of long-distance account settlement for granted. We are used to freely transfer money between different locations, pay our bills anytime anywhere that is convenient to us, and manage our account securely no matter where we go.

Although the current financial resources available in rural areas have drastically amplified and diversified as compared to a decade ago, long-distance account settlement services are currently unavailable to village bank customers, limited by regulations and government guidelines.

With recent supportive policies in finance and taxes that promote the development of rural areas, rural financial environment is largely improved. Agriculture, local business corporations, individual entrepreneurs mushroomed. More funds, loans, education opportunities, and technologies are introduced to rural areas. As a result of economic progress, higher quality and more comprehensive financial services are demanded. And long-distance account settlement is crucial for both individuals and businesses to efficiently finance their earnings, savings, and loans.

The absence of the long-distance settlement obstructs the process of improving

households' lives through proper financing and discourages development of local businesses. Individuals are tied to their home villages. They are not able to access diverse education, healthcare, agriculture, and consumption resources if people cannot transfer money from one location to another. Meanwhile, businesses are limited to local capital. Inconvenience in long-distance settlement makes businesses difficult to expand beyond the establishing location, because payment will not be secured across locations and benefits are marginal. There is an urge to open channels for inter-village-bank money transfers.

## V. WHY DEMANDS ARE NOT MET

### Provision for Village Banks

The China Banking Regulatory Commission's present regulations require village banks to be registered as independent legal entities<sup>26</sup>. Village banks are isolated from the broader national banking network system, including the national payment system and credit reference system. This limitation does not fit the increasing market demand as we examined in the preceding section.

Many problems are raised because of the fact that village banks have no access to the national banking system that facilitates high/low value payments and settlements between different branches and banks. For instance, in a remittance case, insufficient communication between banks may cause one client's name showing only in the inward system but not in the outward system. Inward system indicates the transfer fund receiving party, while outward system refers to the branch or bank where money has been transferred out. The village bank that receives the remittance would not be able to acquire appropriate receipts from the correspondent bank, because, to the correspondent bank, client's information is confidential. As a result, involving banks would fail to accurately record the fund transfer on accounting books. For another example, it appears to be impossible for someone who is from the rural area to send money through the village bank to his/her friend who is outside the village banks' serving area. The local village

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<sup>26</sup> Zhou, Xuanqian. "Difficulties for the Growth of Chinese Village Banks." *Shfinancialnews.com*. Shanghai Financial News, 24 June 2011. Web. 02 Mar. 2012.  
<<http://www.shfinancialnews.com/xww/2009jrb/node5019/node5025/userobject1ai78218.html>>.

bank is not likely to find a suitable correspondent bank because it is outside of the national payment system. The client would have to cash out the money. He/she can either send the money physically by him/herself, which is highly unsafe and time consuming, or transfer through a postal office if he/she can afford it.

Moreover, village banks are not included in the national credit reference system of the People's Bank of China. Village banks are unable to find out the credit history and current credit standing of clients. On the other hand, village banks cannot report to the national credit reference system either. One client can borrow from one village bank, and use the fund to repay outstanding loans made from another village bank. Neither bank would realize the fraud unless the two banks can communicate and exchange information about the client. The inefficiency of credit checking and reporting created an unstable rural lending system. The higher risk associated with loans would encourage village banks to impose unfavorable loan terms to clients, which could significantly harm the development of a healthy economy.

Last but not the least, because village banks are isolated from the national banking network, interbank lending is impossible for rural area clients. This not only hinders the effort to progress out of poverty, but also is retrogressive to the current rapid economic growth in rural areas.

### **High Cost in Current Remittance Market**

Currently, rural remittance route are available through commercial banks, rural credit cooperatives, and post offices. Sending money through post office remains the

most common methods used in rural areas. Refer to the graph<sup>27</sup> below, post office counts 62% of the remittance market, while commercial banks share 32% and rural credit cooperatives with only 5%.

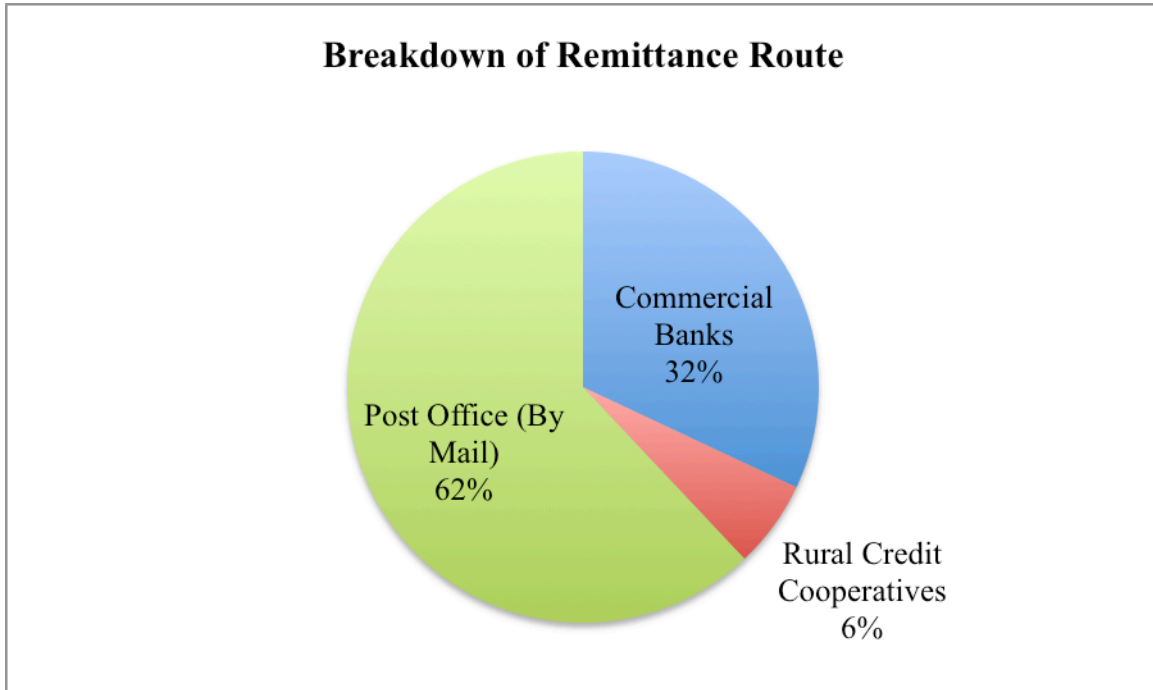


FIGURE 2

In general, remittance services are relatively time consuming, high cost, and associated with compulsory fees. The following chart is an example of the fees charged for postal office remittance services, as of April 2012.

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<sup>27</sup> Murphy, Rachel. *Domestic Migrant Remittances in China: Distribution, Channels and Livelihoods*. International Organization for Migration. P.11  
<<http://www.microfinancegateway.org/gm/document-1.9.26799/80.pdf>>.

Postal Office Remittance Service Fees		
	By Mail Service	2 mins Transfer
Maximum Amount Allowed per Transaction	¥50,000	¥10,000
Compulsory Fees	1% of Total Amount	1% of Total Amount + ¥5~10
Maximum Fee per Transaction	¥50	¥55~60
Days to Receive	3-5 Business Days	2 Mins
Fees for Recipients	5% of Total Amount	5% of Total Amount

	2~4 Hour Transfer	24 Hour Transfer
Maximum Amount Allowed per Transaction	¥10,001	¥10,002
Compulsory Fees	1% of Total Amount + ¥3~6	1% of Total Amount + ¥1~5
Maximum Fee per Transaction	¥53~56	¥51~55
Days to Receive	2~4 Hours	24 Hours
Fees for Recipients	5% of Total Amount	5% of Total Amount

FIGURE 3

If a rural-urban labor migrant wants to send money to home from the city he/she works at, typically he/she would send the cash through the postal office. This route would make the money available for the recipient at the local postal office as a mail. The by mail money transfer service sets a maximum of ¥50,000 per transaction and charges a 1% fee. It typically takes 3-5 business days for the money to get to rural area postal offices. When the recipient cash out the money, the local postal office would charge a 5% compulsory fee for the transfer services. The average annual income of rural family is ¥5919<sup>28</sup> (remember, an average of 48.72% is from transfer and the rest is from other investments). Assume one managed to transfer ¥5,000 at the year end. By the time the

<sup>28</sup> National Bureau of Statistics of China. (2011). *Per Capita Annual Income and Engel's Coefficient of Urban and Rural Households*, Cat. no. China Statistical Yearbook 2011, Table 10-2, National Bureau of Statistics of China, Beijing.

money gets to his/her family, it is about a week late and the ¥5,000 is becoming ¥4,700 ( $=5,000-5,000*(1\%+5\%)$ ). The ¥300 compulsory fee could do much favor to the rural family. They could use it to buy goods, fix their house, pay health and education expenses, purchase production capacities, and expand businesses. Not to mention the potential time value of the money that is lost from the 3-5 days transfer time. Remittance through postal office is inconvenient, but unfortunately already the best option in the current market.

## **VI. RECOMMENDATION**

In order to meet the increasing demand in remittance and long-distance account settlement and solve current market problems, China Banking Regulatory Commission (CBRC) should allow village bank to connect to the broader national banking network that includes interbank account settlement and credit reference system. I believe China Construction Bank should initiate the effort to petition CBRC to speed up the process of updating regulations on village banks.

### **Why Village Bank?**

The existing remittance service by the postal office is time-consuming, expensive, and inconvenient. Postal office lacks the financial infrastructure to support long-distance account settlement services. Village banks have the capability and the need to expand into these two business areas.

Village banks provide the majority of financial services to rural residence. People rely on village banks to save and borrow money. The most convenient and safe way for people to transfer money would be from the same account and at the same bank. As of right now, one needs to withdraw money from a village bank and carry the fund to the closest postal office to transfer the money. Although the security at postal offices have improved and people need to worry less about safety at postal offices, it is still not safe for someone to bring a large chunk of money with him/her. The person may get robbed and money may be stolen on his/her way to a postal office. People from rural areas can hardly bear the financial and psychological burden of this loss. If village banks



can implement long-distance money transfer services, rural clients would not have to deal with the hassle and the transfer of funds can be assured.

In addition to the benefits to rural clients, village banks also demand to enter remittance and long-distance account settlement segments. Providing comprehensive financial services to clients would significantly increase the client base of village banks. Consequently, village banks could earn profits from new services and products and sustain their own operations. Besides, the access to national credit reference system allows village banks to check clients credit history and current credit standings, and also encourage the communication between village banks to obtain a better understanding of clients. Village banks would have the resource to screen customers and design more suitable loan products. The customized products could more efficiently meet the clients' financial needs and support clients' growth.

## VII. WHY CHINA CONSTRUCTION BANK?

### **The Double Bottom Line**

**Social Bottom Line** – The village bank branches are part of China Construction Bank's effort to fulfill its corporate social responsibility. CCB's village banks support the development of rural economy and improve rural people's lives. If CCB successfully petitioned CBRC to allow village banks' connection to the national banking system, CCB's village banks would be able to utilize CCB's existing banking network and provide real comprehensive financial services, which are currently available for urban clients, to rural clients at an affordable price with reliable manner. CCB's village banks could scale up social impacts and serve rural clients at a greater extent. This satisfies CCB's social corporate responsibility and improve CCB's corporate image among stakeholders as well.

**Financial Bottom Line** – The extension of village banks to national banking system would bring much financial benefits to CCB.

First of all, if the new rules are implemented, the cost for CCB to execute is minimal. CCB's village banks currently use the same bank system that is used in urban banks. Village banks cannot fully utilize all the available services, such as remittance, long-distance account settlement, and E-banking that includes online and mobile banking. In other words, a large portion of the current village banks' fixed costs are unnecessary due to the incompleteness of products and services provided. If CCB can persuade CBRC to issue the potential regulation, CCB could easily add these services to village banks by

simply activating currently idle supporting systems without building new facilities.

Secondly, CCB has the human resources to support the potential new service lines. As mentioned in the Section III., p. 12, of this paper, CCB hires previous or current employees who are experienced in banking to work at village banks. Employees have been trained at urban banks, where money transfer and E-banking are common, and are familiar with the potential services. CCB has the advantage of skilled village bank employees and could save on retraining employees.

Third, opening the channel for village banks to connect to the national banking system could bring even more profits to CCB. As we have analyzed earlier in this paper, there is an increasing demand in remittance and long-distance account settlement in rural areas. Besides labor migration, progress in local economy caused rapid increase in number of enterprises. According to the National Bureau of Statistic of China, township and village enterprises in rural areas increased from 14,680 in 2006 to 15,893 in 2010, private enterprises rose from 2632 in 2006 to 3347 in 2010, and self-employed individuals increased from 2147 in 2006 to 2540 in 2010<sup>29</sup>. The data shows a trend in increasing new businesses, both by the local governments and private entities. These new businesses and individuals are potential customers of CCB's village banks. Adding and improving services available at village banks would help attracting new clients and capturing more market share. This will increase profits of CCB's village bank branches

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<sup>29</sup> National Bureau of Statistics of China. (2011). *Number of Employed Persons at Year-end in Urban and Rural Areas*, Cat. no. China Statistical Yearbook 2011, Table 4-2, National Bureau of Statistics of China, Beijing.

and stabilize CCB's role in boosting rural economy.

More importantly, CCB could take the opportunity to introduce its advanced E-banking services<sup>30</sup>, especially mobile banking, to rural clients, once village banks have access to national banking system. The main functions of mobile banking are checking account balance, transfer of money, receiving transfers, making payment remotely, and online purchase. The existing CCB mobile banking services are developed, reliable, user-friendly, and fast<sup>31</sup>. In rural areas, individuals own more than one mobile device. There are 136.54 sets of mobile devices on average for every 100 people from rural areas<sup>32</sup>. This data indicates that there is a huge market for CCB to implement and promote mobile banking services in rural areas. Rural clients will have access to premium mobile banking services, and, at the same time, CCB will gain additional resource for village banks' profits.

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<sup>30</sup> The current E-banking of CCB provides online banking platform as well as mobile banking.

<sup>31</sup> "China Construction Bank E-bank." *Ccb.com*. China Construction Bank. Web. 02 Apr. 2012.  
<[http://ebank.ccb.com/cn/ebank/20090521\\_1242887881\\_1.html](http://ebank.ccb.com/cn/ebank/20090521_1242887881_1.html)>.

<sup>32</sup> National Bureau of Statistics of China. (2011). *Number of Durable Consumer Goods Owned by Rural Households*, Cat. no. China Statistical Yearbook 2011, Table 10-30, National Bureau of Statistics of China, Beijing.

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