

Private Financial Sector in China: Current Status, Hinderances and Evolution

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I. Current Status of Private Financial Institutions: The case of Shanghai

1. Much Smaller in the Company's Number and Asset

Figure 1: Private Financial Institutions vs Total Private Companies in Shanghai

(the shares of private companies in total number and total asset of all companies, by industry, as of 2021)

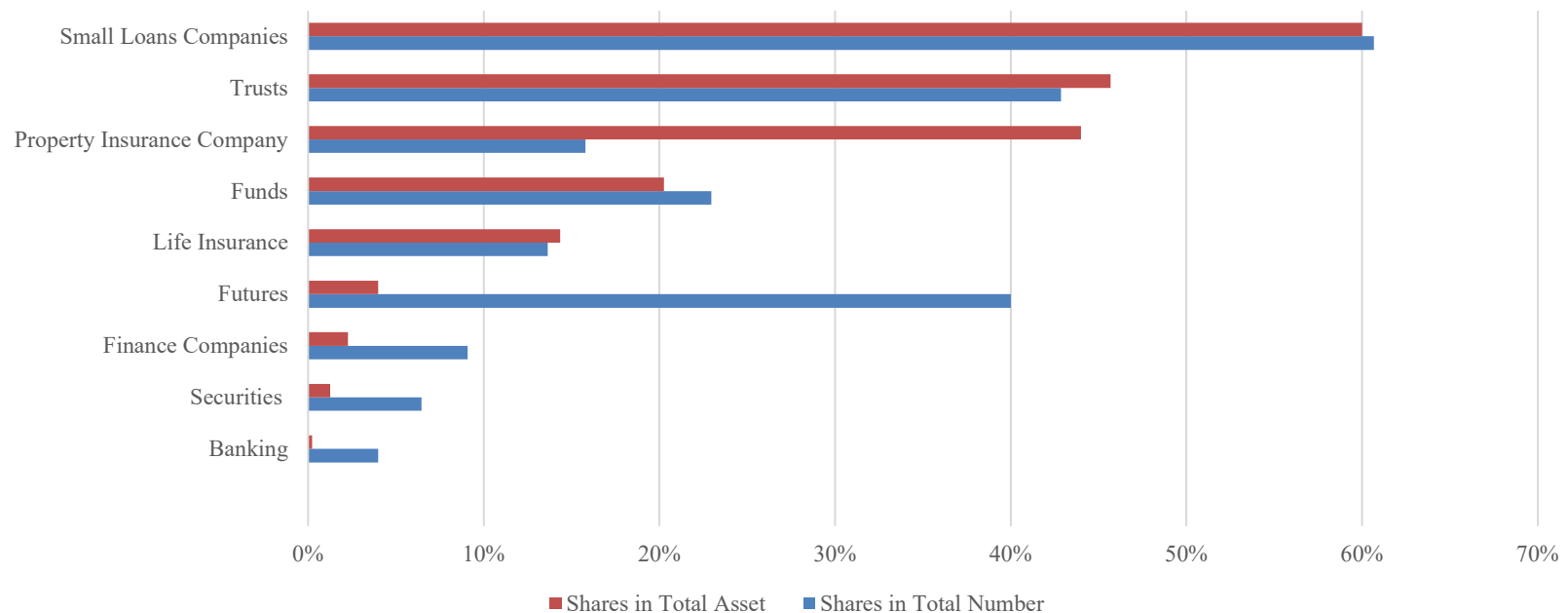
Dimension	Private Financial Institutions	Total Private Companies
Share In Total Number	30.10%	90.00%
Share In Total Asset	4.00%	28.50%

Source: Shanghai Headquarters of the People's Bank of China, Shanghai Federation of Industry and Commerce, Shanghai Banking and Insurance Regulatory Bureau, author's calculation.

2. Asymmetric Development Across Sector

Figure 2: The Development of Private Financial Institutions is uneven in Shanghai

(the shares of private companies in total number and total asset of all companies in Financial Sector, by sub-sector, as of 2021)



Source: Shanghai Headquarters of the People's Bank of China, Shanghai Federation of Industry and Commerce, Shanghai Banking and Insurance Regulatory Bureau, author's calculation.

II. Hinderances to Growth and Development of Private Financial Institutions

1. High Market Entry Thresholds

- ✓ Registered capital requirement:

≥ 2 bn RMB for a private bank vs. ≥ 1 bn RMB for a national commercial bank

2. High Market Barriers

- ✓ State-owned banks established

3. Biases against Private Financial Institutions

- ✓ Limited space to grow eg. Government only promote them doing business in limited areas such as inclusive finance, fintech

4. Failure of Some Private Financial Institutions

- ✓ Baoshang Bank

III. Evolution of China's Private Financial Sector

- Most of the financial sub-sectors will remain state-dominated.
- Private financial institutions are expected to play key roles in fintech-related sectors.
 - ✓ In the third party payment sector, Alipay, Tenpay and 99Bill accounted for almost 48% of market shares, according to the data of 2022Q4.
 - ✓ MYbank and Webank have had a significant impact on other banks in the banking sector, especially in terms of their use of technology to enhance their business models.
- The business environment for private financial institutions is improving, but the further steps of the financial institution reform remain uncertainty.

Thanks for watching!

