

Ulrich Birch: «Chinese Private Banking Remains Protected» Mittwoch, 27. April 2016 18:35

China offers great potential for private banks, Ulrich Birch told *finews.ch* in an interview. He also mentioned the enormous challenges foreign banks face if they want to establish a presence in Asia.

Mister Birch, Chengdu is one of China's biggest cities and still growing fast. The numerous banks are very noticeable in the city – is China «overbanked»?

Their presence is indeed impressive, but the banks and their branches are satisfying a demand. Chinese consumers are still heavily dependent on cash. Banking institutes have e-banking and mobile-banking solutions on offer. But the older generation in particular is still going to the counter to do its banking business – more so than in Switzerland.

The consumption with the help of smartphones and apps in China is pretty extensive already, at least in the eyes of an average digital-savvy European?

That's why I wonder how long all those high street branches will survive. Payments using smartphone apps are increasing rapidly and because of the number of Chinese, the money involved is pretty massive.

Numerous payment service providers are wooing Chinese customers. WeChat Wallet, Alipay, Mobile Pay and the systems developed by Apple, Samsung and Huawei are quickly spreading. They all compete with banks and cash – and are taking away their business faster than we expected.

China is in a digital revolution?

In the cities, yes. Apps to order taxis or to substitute them with private vehicles are geared towards a redirection of payments. Examples are Uber, Kuaidi and Didi.

«Regulation is simply not keeping pace with the dynamic development»

The fact that this is all taking place with only a limited regulatory framework and and limited supervision doesn't seem to be of great concern tough. Regulation is simply not keeping pace with the dynamic development.

Ulrich Birch: «Chinese Private Banking Remains Protected» Mittwoch, 27. April 2016 18:35

China has time and again surprised with developments that came in leaps. Entire generations of technology are being left out. Cash for instance is being replaced by smartphone payments. Banks which still work with cash are faced with a serious challenge.

Companies in China often seem to invest and build in the hope that the capacities will be used once they are there. Am I wrong?

No, that's very much the case. The «trial and error» principle is much more common here. In Chengdu, about 40 percent of the office space is vacant, in Chongqing more than 50 percent. And still, whole new districts and economic centers are in the planning process and are being constructed.

How do they finance construction projects that follow the principle of «trial and error»?

That's a good question. It all worked very well during the boom years. Following the opening of the economy in 1989, the expansion has been without precedent. The odd mistaken investment doesn't really count. But the golden times are over now.

«Conditions for foreign companies have become clearly more difficult»

At the European Union Chamber of Commerce in Southwest China we noticed that the conditions for foreign companies have become clearly more difficult. Business confidence among our European associated firms has dropped for the past five years.

Do you also represent companies from the financial-services industry?

We are there for all industries and have a national working group called «Banking and Securities». In the South West we only have very few such companies though because there are hardly any European institutes present here.

Apart from Hong Kong, Swiss banks have hardly established a presence in China. UBS is the only one to have branches in Beijing and Shanghai. And for the corporate business UBS concentrates on Singapore and Hong Kong. Do you believe that the banks are missing out on something?

Ulrich Birch: «Chinese Private Banking Remains Protected» Mittwoch, 27. April 2016 18:35

I'm convinced that the province of Szechuan with the city of Chengdu as well as the municipality of Chongqing harbor a great potential for foreign financial-services companies – for instance in private banking.

A large number of people have become very wealthy in this region as the economy grew. The regulation of the market however doesn't allow for active private-banking services, which we regret.

The financial sector in China is protected against competition and underdeveloped. And for foreign banks, which would be ready tap into the potential of the market, the access is being restricted.

Yes indeed, China remains pretty restrictive – not only in the banking industry, but in the entire services industry. The protectionism has a reason though: many Chinese banks wouldn't be able to survive in a competitive market.

«Does China want to let foreign competitors in? Probably not»

China is said to have the most lucrative wealth-management market. The question is, does China want to let foreign competitors in? Probably not.

What is the situation of the Chinese banking industry?

It is difficult to assess because transparency isn't exactly exemplary. Big banks such as ICBC and CCB have healthy balance sheets. Smaller institutes are known to have a lot of bad loans in their books. The banks are urged to award mortgages even if there are too few securities available in order not to allow real estate prices fall. If the bubble bursts, many banks likely will suffer. But the state would then probably intervene.

*The interview with **Ulrich Birch** was conducted at the [stars Foundation](#) conference in Chengdu, where [finews.asia](#) was a media partner.*

Ulrich Birch was chairman of the European Union Chamber of Commerce in Southwest China. As an engineer by training he managed a branch of ABB in Chongqing. The 64-year-old is currently working as consultant for Consenec and will subsequently move back to Switzerland.

Ulrich Birch: «Chinese Private Banking Remains Protected»
Mittwoch, 27. April 2016 18:35
