

Development Experience and Reference of Top Private Banks

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Abstract: ***Objective:** Summarize the development experience of top private banks and provide reference for the development of other private banks. **Methods:** Using literature review, case analysis, and comparative analysis methods to analyze the operational characteristics of WeBank and MY Bank. **Conclusions:** 1) Private banks should focus on the general public and small and micro enterprises. 2) Private banks should attach importance to product research and development. 3) Private banks should strengthen technological support. 4) Private banks should strengthen external cooperation.*

Keywords: Private bank; WeBank; MY Bank; Experience reference.

1. INTRODUCTION

China launched the first batch of pilot private banks in 2014, and it has been 10 years since then. As of now, a total of 19 private banks have been established in China, of which 18 have released their 2023 annual reports. According to the 2023 annual report data, private banks have overall good business performance, with WeBank and MY Bank in an absolute leading position. By the end of 2023, the asset balances of WeBank and MY Bank have reached 535.579 billion yuan and 452.13 billion yuan, accounting for more than half of the total assets of 18 private banks.

In addition to asset size, the operating income and net profit of WeBank and MY Bank are absolutely ahead of other private banks and maintain a continuous growth trend. Quality indicators such as capital adequacy ratio and non-performing loan ratio meet regulatory requirements, and the overall operation is stable. In 2023, the operating revenue of WeBank and MY Bank were 39.361 billion yuan and 18.743 billion yuan, accounting for 63.66% of the overall operating revenue of 18 private banks, with year-on-year growth rates of 11.3% and 19.49%. In terms of net profit, WeBank and MY Bank had net profits of 10.815 billion yuan and 4.203 billion yuan, accounting for 70.66% of the overall net profit of 18 private banks, an increase of 21.01% and 18.8% year-on-year.

WeBank and MY Bank are both the first batch of pilot private banks in China, with a long duration of operation and significant business results. Analyzing the operational characteristics of WeBank and MY Bank is beneficial for summarizing experience and providing reference for the development of other private banks.

2. THE CONCEPT AND CHARACTERISTICS OF PRIVATE BANKS

In contemporary China, private banks are still a relatively new financial concept. Strictly defined private banks maintain private characteristics in multiple aspects [1]. 1) The property rights of private banks belong to the private sector, which means that their property rights structure should be dominated by private capital. 2) The operation and management of private banks should have private characteristics, emphasizing that controlling shareholders have operational autonomy over private banks. 3) The customers of private banks are mainly private enterprises or individuals. 4) Private banks bear independent responsibility, and the government has no guarantee obligation to provide them with a backstop.

In 2013, China issued the Guiding Opinions on Financial Support for Economic Structural Adjustment and Transformation and Upgrading, which clearly stated that private capital is allowed to initiate the establishment of private banks that bear their own risks, laying the institutional foundation for the birth of private banks. In 2014, the first five private banks were officially approved for pilot projects. In 2015, China issued the Guiding Opinions on Promoting the Development of Private Banks, marking the entry of private banks into a normalized development track.

3. STUDY SUBJECTS AND RESEARCH METHODS

3.1 Study Subjects

3.1.1 WeBank

WeBank opened in December 2014, under the leadership of Tencent Group. Based on the strategic vision of "integrating into daily life, continuous innovation, and leading the world in digital banking", WeBank actively uses financial technology to expand its financial coverage and is committed to meeting the diverse financial needs of the general public, individual businesses, and small and micro enterprises.

WeBank is positioned as a digital bank with technology as its core development engine, focusing on providing differentiated, distinctive, high-quality and convenient financial services for small and micro enterprises and the general public, and continuously expanding the breadth and depth of services to form a sustainable digital inclusive finance development model for business.

WeBank relies on Tencent's two major social platforms, WeChat and QQ, to gain customer traffic and develop personal and small and micro enterprise businesses. The financial business model of WeBank is divided into two sections, namely personal finance and corporate finance. The main products in the personal finance sector include micro loans, micro household loans, micro car loans, micro accounts, and WeBank Wealth+. Representative products of the enterprise finance section include Weiye Loan, Industrial Finance, Sci Tech Innovation Finance, and WeBank Enterprise Finance App.

By the end of 2023, WeBank has built a digital bank that is easily accessible and trustworthy for nearly 400 million individual customers, with a cumulative credit of 1.4 million small and micro enterprises, a balance of inclusive small and micro loans exceeding 180 billion yuan, and a final asset management scale exceeding 2.5 trillion yuan.

3.1.2 MY Bank

MY Bank opened in June 2015 and was planned and established by Ant Group. The mission of MY Bank is to provide financial credit services that accompany the growth of every small and micro merchant who operates with integrity. MY Bank is committed to addressing the financial needs of small and micro groups such as small and micro enterprises, individual businesses, and operating farmers, and striving to create the preferred bank for small and micro enterprises.

MY Bank is positioned as a technology driven Internet bank, and provides pure online financial services for target customers through continuous scientific and technological exploration. Relying on the massive customer base accumulated by Alibaba's online e-commerce platform, online commercial banks provide short-term small and micro credit loans to small and micro enterprises that have been overlooked by traditional banks. Moreover, MY Bank view the rural market as a blue ocean and provide credit services to rural customers. Representative products of MY Bank include online commercial loans, online commercial stickers, supply chain finance, enterprise online banking, etc.

As of the end of 2023, MY Bank has served over 53 million customers, with an average balance of 72000 yuan per credit customer.

3.2 Study Methods

3.2.1 Literature and data method

Using CNKI and Taishan University library, to "private bank", "WeBank" and "MY Bank" keyword search, screened more than 30 journals, papers and monographs, carefully analyzed and summarized them, provide strong theoretical support and basis for the paper.

3.2.2 Case analysis method

Select representative private banks, namely WeBank and MY Bank, as the main research objects, analyze their business characteristics, advantages, and development experience, and provide reference for the development of

private banks in China.

3.2.3 Comparative analysis method

By comparing and analyzing the similarities and differences between WeBank and MY Bank in terms of customers, business, risk control, etc., to summarize and extract universal rules and characteristics.

4. RESULTS AND ANALYSIS

Through a comprehensive analysis of the operational characteristics of WeBank and MY Bank, it can be found that in addition to the advantages supported by major shareholders, the following advanced practices have promoted their rapid development.

4.1 Focus on Target Customers

WeBank is positioned as individual customers and small and micro enterprises, while MY Bank focuses on small and micro enterprises and rural groups, both of which belong to the "long tail market" that is not valued by traditional banks. These two private banks are positioned as long tail market customers, which not only meets the institutional requirements for establishing private banks in China, but also represents a strategic choice for private banks to leverage their strengths and avoid weaknesses. Although WeBank has extended its application to small and medium-sized enterprises in the industry chain, technology-based innovative small and medium-sized enterprises, as well as poverty-stricken farmers, disabled people and other customer groups on the basis of operating WeChat and QQ social media platforms, it still controls its target customers within the long tail market.

4.2 Continuously Optimizing Products

On the basis of identifying target customers, WeBank and MY Bank continue to optimize product and service quality. 1) Reduce customer entry barriers. 17% of the individual customers of We Bank's micro loan are first-time borrowers without bank credit records, and over 50% of the small and micro enterprise customers of Weiye Loan have no bank credit records. 80% of small and micro operators who receive MY Bank's services are first-time recipients of bank operating loans. 2) Improve service convenience. For example, WeBank's Weiye Loan can complete the entire process from customer application submission to fund receipt with just one mobile phone. MY Bank have launched the contactless loan "310" model, which means "3-minute application, 1-second loan disbursement, and zero manual intervention throughout the process". 3) Expand business scope. WeBank not only expands its loan business to the fields of industrial finance and technology finance, but also provides one-stop digital comprehensive services for small and micro business owners through the WeBank Enterprise Finance App, such as launching data safes, aggregated acquiring, enterprise payroll, and providing special services such as policy consultation and interest subsidy application for enterprises. MY Bank has expanded its loan business to bill discounting and further developed a one-stop bill service platform for small and micro enterprises. When conducting supply chain finance business, MY Bank is committed to providing small and micro enterprises with full chain credit and comprehensive fund management needs for production and operation through the Dayan system.

4.3 Strengthen Technological Support

As a digital native bank, WeBank has always maintained a high level of technology investment, with technology personnel accounting for over 50% of its employees, and IT investment accounting for over 9% of operating revenue over the years. As of the end of 2023, WeBank has submitted a total of 3778 patent applications and granted 752 valid patents. WeBank continuously develops and lays out cutting-edge technologies such as artificial intelligence and blockchain, providing technical support for product development, customer marketing, and risk control. For example, WeBank and its partners have jointly launched a one-stop online car buying experience program called "Original Universe Car Exhibition Hall", which provides customers with immersive car buying services.

As a technology bank, MY Bank continues to maintain high investment in technology research and development, and deeply layout cutting-edge technologies. From 2019 to 2021, for three consecutive years, the technology research and development investment of MY Bank accounted for over 10% of its operating revenue. By the end of 2023, the proportion of technology personnel in online commercial banks has reached 64%. MY Bank is the first

bank in China to apply cloud computing technology to its core system. MY Bank has developed the "Bailing" artificial intelligence risk control system for small and micro enterprise credit business, the "Dashanque" satellite remote sensing risk control system for farmer loans, and the "Dayan" digital supply chain finance system for supply chain small and micro enterprise credit business. The successful development of these systems has made MY Bank the first bank in China to fully apply artificial intelligence to risk control in small and micro enterprise loans, the first to apply satellite remote sensing technology to rural finance, and the first to apply graph computing to supply chain finance.

4.4 Value External Cooperation

Due to their late start, small scale, and strong regulatory constraints, both WeBank and MY Bank have extensively cooperated with external institutions in their development process. WeBank uses the advantages of the Internet to screen a large number of high-quality small and micro enterprise customers. After giving them bank credit, WeBank recommends them to other cooperative banks to jointly provide financing services for small and micro enterprises. When conducting technology finance business, WeBank collaborates with investment companies, guarantee companies, insurance companies, and other institutions to provide services for technology enterprises. MY Bank not only collaborates with other financial institutions, but also extensively cooperates with tax bureaus and government financing guarantee institutions to jointly provide financial services for small and micro enterprises. When conducting supply chain finance, MY Bank has partnered with large state-owned enterprises such as China Construction Corporation and State Grid Corporation of China to provide loan services for their small and micro suppliers. In expanding the rural market, MY Bank collaborates with county governments to continuously enrich the dimensions of county-level user data, create regional exclusive credit models, and provide target customers with unsecured credit loans.

5. CONCLUSION AND RECOMMENDATIONS

Despite differences in shareholder backgrounds and strategic positioning, all private banks face the same operating environment and regulatory requirements. On the one hand, private banks are still in their infancy, with small business scales, relatively single product and service functions, and facing enormous competitive pressure from traditional commercial banks. On the other hand, private banks are subject to regulatory policies such as "one bank, one store", which restrict them from opening branch offices and conducting operations in different locations, especially in the general deposit business, making it difficult to achieve effective breakthroughs. Moreover, private banks have reduced their social awareness due to the lack of offline branches. According to statistics, the social awareness of representative private banks such as online commercial banks is only 34.5% [2]. Given that the asset size of private banks is generally smaller than that of state-owned banks, the public's level of concern about them is naturally higher [3].

Therefore, it is of great significance for the healthy and sustainable development of private banks to adapt to local conditions, leverage strengths and avoid weaknesses. Based on the summary and analysis of the development experience of WeBank and MY Bank, the following suggestions are proposed for the development of other private banks.

5.1 Focus on the Long Tail Market and Prioritize the Development of Inclusive Finance Services for the General Public and Small and Micro Enterprises.

Traditional commercial banks are limited by the heavy asset model of having multiple branches and high costs, and focus on developing high-end individual customers and large and medium-sized enterprise customers, following the "80/20 rule". Private banks need to focus on expanding their customers to the general public and small and micro enterprises in order to achieve differentiated operations from traditional commercial banks and effectively reduce competitive pressure from them. Moreover, these customers are able to accept relatively high loan costs, providing profit margins for private banks.

5.2 Emphasize Product Research and Development, Continuously Improve Service Quality, and Expand Business Scope.

To effectively meet the needs of target customers and enhance the market competitiveness of products, private banks need to continuously promote product research and development. 1) Based on the characteristics of target customers, private banks should strive to lower the business threshold and enable more target customers to accept

banking services.2)Private banks should improve service efficiency by simplifying product operations to effectively meet the "small, frequent, short, and urgent" payment needs of small and micro customers, while also saving time and costs for customers and enhancing product competitiveness.3)Continuously expanding business scope around target customers, while improving customer satisfaction and loyalty, and enhancing customer value contribution.

5.3 Strengthen Technological Support to Empower Business Operations and Management.

The integration of finance and technology has become the overall development trend of the banking industry. For private banks that are constrained by regulatory policies and can only adopt a light asset model, embracing cutting-edge technology has become the best choice. Private banks should continue to increase their efforts in technology research and development, empower technology in various aspects such as product innovation, customer marketing, risk control, and internal management, effectively meet customer needs, enhance market competitiveness, and improve operational efficiency. In addition, private banks should attach great importance to the development of Internet banking business. The Internet business model can not only greatly reduce costs, but also effectively reduce the procedures that customers need to go through, so it can effectively attract customers who have no time to go to outlets [4].

5.4 Strengthen External Cooperation, Leverage Strengths and Avoid Weaknesses, and Leverage for Development.

Due to late start and strict supervision, private banks face many shortcomings in their development. By collaborating with external institutions, private banks can fully utilize external resources, make up for their own shortcomings, and achieve win-win cooperation. For example, cooperation between private banks and other banking institutions can make up for the shortcomings of insufficient deposit funds in private banks, and also contribute to their social awareness and customer trust. By collaborating with leading enterprises, private banks can effectively expand their upstream and downstream small and micro supplier customers to accelerate the development of supply chain finance business. By collaborating with local governments, private banks can expand their data sources and reduce the degree of information asymmetry between them and their target customers. Private banks can also collaborate with fintech companies to make up for their lack of technological research and development capabilities, and accelerate the improvement of their own technological level.

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