

THE AUSTRALIAN**Xi Jinping's changes mean its time for Australian banks to reassess**

JEREMY STEVENS THE AUSTRALIAN 12:00AM April 2, 2018

Xi Jinping's increase in personal power has garnered much recent media attention. However, Australians, and Australian financial institutions in particular, should pay attention to another development coming out of the recent National People's Congress: Xi appears intent on reforming China's banking and finance sector.

His appointment of a trio of trusted allies and noted reformers to key positions of power in economic and financial policymaking sends a clear signal: this is not the time for Australian banks to reduce their focus on China. Quite the opposite. Now is the time to be brave, act strategically and invest in a market where demand for sophisticated financial services will increase together with the growth in the middle class.

Last November Chinese authorities announced a relaxation of foreign ownership rules across the financial sector. Foreign shareholding restrictions on local banks, security firms, asset management companies and life insurance companies were set to be scrapped. Foreign bank branches would also have reduced reporting obligations enabling a wider product offering and more efficient operations. Since then the authorities have released further statements and draft regulations supporting the move to allow greater foreign ownership and market access.

The personnel changes approved at the recent NPC are all signs of Beijing's apparent intention to further liberalise the financial sector. Yi Gang, an economist with a PhD from the University of Illinois, was appointed as the new head of the People's Bank of China. A disciple of the reformist outgoing PBOC governor Zhou Xiaochun, Yi has wasted no time in signalling his intentions, saying a series of reform and opening-up measures will be announced in the lead-up to April's Boao Forum. Guo Shuqing, another reform-minded ally of Xi, is now not only the head of the combined banking and insurance regulator, he has also been given the position of party secretary at the PBOC. With party trumping state in China's current political landscape, this puts him above Yi Gang in the power hierarchy.

Most importantly, Harvard-trained Liu He, Xi's most trusted economic policy adviser, has been made vice-premier in charge of the economy. With three reformers at the apex of China's economic and financial power, Australian financial firms need to review their business strategy for China.

For Australian banks with a minority shareholding in local Chinese banks, the chance to take a majority stake and gain management control is now more likely than ever. In what looks like a shortsighted move, ANZ sold its minority shareholding in Shanghai Rural Commercial Bank along with its China-based retail banking and wealth management operations. It is also reported to be looking to offload its stake in Bank of Tianjin. Both local banks are located in some of the most affluent areas of China.

Commonwealth Bank has sold a network of small county-level banks it established in the provinces of Hebei and Henan but has so far retained its minority stakes in two local city-based banks.

While CBA, NAB and Westpac have established single branches in Shanghai and Beijing, they have gone no further. ANZ has branches in seven affluent cities so in this respect at least it is well placed to benefit from reform measures.

If they don't reassess their strategy, Australian banks risk missing out on providing services to a middle class set to number 800 million by 2030.

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