

SWOT Analysis on the Development of the Rural Banks in Heilongjiang Province

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Abstract—The paper deeply analyzes the strengths, weaknesses, opportunities and threats of development of the five rural banks in Heilongjiang province by the SWOT analysis. Economic advantages and its own advantages lay the foundation for development of rural banks. The weaker earning ability, the larger operating risk and the absence of effective regulation become the fetters. The support policies, current demand and shortage of financial supply create the condition for the development of rural banks. The competition of other financial institutes, activity of private lending and credit risk pose threats to development of rural banks.

Keywords-Rural banks; development; SWOT analysis

1. Introduction

Rural finance is the center of the modern rural economy. China's agricultural foundation is weak. The level of economic and social development in rural areas lagged far behind the city. And the income gap between urban and rural residents is growing. One of the important reasons for these problems is the serious financial "anemic" in rural areas. The establishment of rural banks is a useful exploration to establish various forms of main supply of rural finance. To a certain extent, it meets the financial needs of rural areas to supplement, improves the rural financial market and increases the financial support to the rural economy. The establishment and perfectment of rural banks has a big influence not only on farmers' production and living, but also on economic development, political stability and social harmony of the entire country.

Heilongjiang has built five rural banks since the latter half of 2008 in order to perfect the rural financial organization system, active the rural financial market, and ease off the pressure of loans of the farmers and small and medium-sized businesses in rural area.

2. Strengths

2.1 Economic advantage

Heilongjiang province is the largest commodity grain production base, and have the reputation of "Bei-Da-Cang". Its grain yield and reserves rank the first in China. It's also the cradle of industry of new China and the distinguished old industrial base. It has formed heavy-chemical industrial system with oil, coal, forestry mining, weight equipment manufacturing, petroleum chemical industry, food industry and medicine industry as its representative through the development and construction more than fifty years. It plays an important role in the distribution of industry in China. As the important base of agriculture and industry, the GDP of Heilongjiang province comes up to 828.8 billion RMB, with an increase of 11.1% over the same period of previous year in 2009. The per capita GDP is 21,665 RMB, increased 11.1%. The per disposable income of citizens comes up to 12,566 RMB, increased 8.5%. The per net revenue of rural residents comes to 5206.8 RMB, increased 7.2%. The sustained improvement of strategic power, rapid expansion of economic and the continuous increase of financial ability provide a strong economical support for the development of rural banks in Heilongjiang province.

2.2 Their own advantages

Distinct property right. The rural banks are eligible for independent business entity, and belong to the primary corporate body. The decision-making chain of rural banks is short, and the procedures are

concise. Thus the rural banks have a great advantage on loan review and origination, which could lock on the superlative loan origination time to improve the profitability of funds.

The loose launching condition. “ The registered capital of a rural bank which is built in county or city could not be lower than 3 million RMB. The registered capital of a rural bank which is built in village or town could not be lower than 1 million RMB.” Relative to the commercial banks, rural banks give the invigorate to a person with lofty ideals to be a banker, thus it lets rural banks more adapted to “grass roots”.

No harmful background. Usually, rural banks are built by the commercial bank that is of good quality. They have the distinct property right, and have no history debt and leftover problems. Because of the flexible operation, the rural banks could march with light packs in the rural financial market, thus they get the advantaged strengths.

Flexible operation. The rural banks are entitled to appropriately raise deposit rate, and cut the lending rate. They also have the discretionary power towards the largish limit loans. Therefore, the rural banks are appreciated by farmers and minor enterprises.

3. Weaknesses

3.1 The weaker profitability

The difficulty for attracting deposit. The rural banks are difficult to attract deposit on the beginning period of opening, because rural banks lack of public credibility. The public need time to acknowledge it, and the farmers who have a demand for a large loan usually have the weaker deposit to some extent.

The shortage of innovation of financial product, service, guarantee and mortgage. The revenue sources of five rural banks in Heilongjiang province mostly depend on the interest spread, which have simplex profit channel. The intermediary service, such as water & electricity fee payment, financing product sale and insurance agency couldn't be carried out. In the financing plan, they are always limited to the conventional means of mortgage, such as housing and automobile and so on, while the new-fashioned system of guarantee and mortgage is still deficient.

The simplex sales network and narrow service interface. At present, rural banks have a few sales network. In this five rural banks, only one has two sales networks, other just have one sales network, and most of the places are located at county seat. The rural banks have a few employed persons and a small capital scale, and lack of the modern methods as well as attraction to the majority farmers.

3.2 The biggish operating risk

The loan-deposit ratio is a simple index for banks to control risks. From the angle of controlling risks, the loan-deposit ratio should not be too high, because the bank have to deal with the daily cash back and settlement for clients. It' s necessary for the banks to leave some cash on hand and petty cash. If the loan-deposit ratio is too high, it will lead to a pay crisis because of the shortage of this part funds.

Yet the easier lending and the difficulty for attracting deposits make the loan-deposit ratio of rural banks continually run on the high level. Up to 2010 June, the average loan-deposit ratio of rural banks in Heilongjiang province is 99.32%, and excess the supervision standard. Especially the Rong-xing rural bank and Run-sheng rural bank should be with great concern. The loan-deposit ration of two banks are 367.57% and 168.12% respectively, which means higher risk. The continual higher loan-deposit ratio reflects the thriving demand in intra-county loan, and the strong intermediary ability of funds on site. Even if calling loan from parent bank, it also represents “ the urban funds supporting the rural” , so China Banking Regulatory Commission treats this with tolerance to some extent, and proposes that the index of loan-deposit ratio will not be assessed for three years. However, the liquidity risk should be paid enough attention. If appearing the liquidity crisis, the reputation of rural banks will be ruined, and it' s more difficult to accept money deposits.

3.3 The absence of effective regulation

In the face of increasing quantities and geographical diversification of rural banks, it' s difficult for the existing supervision force, supervision mode and technological means to carry out the theory of risk

supervision in the process of regulation. The self-regulatory organization haven't extent to rural. The mechanism of self-discipline and self-management is still vacant in rural financial market in China. The strict process and standard of external audit in rural financial market hasn't been built at present, and couldn't play a part in effective regulation. Additionally, the supervision by public opinion and the information exposure system of rural financial market are deficient, and the external constraint is missing.

4. Opportunities

4.1 The support on policy

The development of rural banks couldn't be able to do without the support of policy. In fact, supervision departments have unveiled some fresh policies to support the development of rural banks, such as fiscal incentives act and tax preference. Ministry of Finance issued a series of policies to promote the financial institutional support for agriculture, which provide a massive policy support for development of rural banks in Heilongjiang province.

4.2 Current demand

With the continuous adjustment of industrial structure and the transformation of production operation mode, at present, the current demands for funds are not the petty loans, which are used to maintain the simply purchase of fertilizer, farm chemical and seed, but towards the further development, namely more and more demand subjects, use of funds, demand cycles and demand quantities.

4.3 The shortage of financial supply

In the rural financial market, there are Agricultural Bank of China, Agricultural Development Bank of China, Post Saving Bank and Rural Credit Cooperatives. In the theory, these financial institutes are used to serve the agriculture-countryside-farmer. But because of the commerce interest-driven, numerous embranchment and website of commercial financial institution evacuate from rural, thus the industrialization management of the middle-size and small-size construction projects and minor enterprises can't get enough.

Because of the poor operation effectiveness of rural financial institutions in Heilongjiang province and high underlying risks, it could not provide enough credit aid for the agriculture and development of rural economic objectively. The existing rural financial system has a limit financial supply to the Agriculture-Countryside-Farmer. The reasons are the self-burden and small scale of rural credit cooperatives, the lower coverage rate of web site in the rural area, and the weaker capability of support agriculture.

5. Threats

5.1 The competition of other financial institutes

With the constant growth of supply subjects in rural financial system, market competitions consequentially aggravate. Since the beginning of 2009, agricultural bank, rural credit cooperation, post savings bank and Longjiang bank cooperation have issued agriculture loans in a large scale, and these money corporations have strong advantages. The advantages of post savings bank are high-speed credit and easy transaction. The advantages of Longjiang bank cooperation are great credit and abundant customer resources. The rural credit cooperation is the standard rural financial institution with the largest embranchments, extending to almost all the villages and towns, thus it become the main force of supporting agriculture in rural financial system of Heilongjiang. Therefore, with the improvement of service and quality of these financial institutions, the competition of market share will become more and more intense, and the rural banks also face with gradually increased pressure of competition.

5.2 The threat of private lending

There are extensive private lending in the rural financial state of Heilongjiang province. The farmers have larger fund demands, and couldn't get enough loans from the standard financial institution, so the private lending becomes more and more vigorous. When they need loan, most of the farmers adopt the private

lending.They borrow from their relatives, friends and neighbors, or go to the Jews if they couldn' t borrow.Merely a few of them manage to secure a loan from rural credit cooperatives or banks.

5.3The credit risks

Agriculture is a weak industry. The main supporting targets of rural banks are vulnerable industries - agriculture and vulnerable groups - farmers.Agriculture and farmers highly dependent on natural conditions.In the current technical conditions, agricultural production are often threatened by natural disasters, and more agricultural products face high market risk.Compounded by a longer period of agriculture, the production has the features of volatility, high-risk and long-term,which leads to the production decision-making, product distribution and marketing chain lengthened, and risk of loans for agriculture increased.

Because of the small single credit amount and the absence of filing system , the moral hazards happen easily in the loan of agriculture-countryside-farmer. That improves the default risk, and increases the operation troubles of agricultural loans.

6. Conclusions

We should actively seize the opportunity and take advantage to promote full development of rural banks.In view of the threats and challenges in Heilongjiang Province ,we make specific suggestions,such as clearing market position of rural banks, improving the management level of rural banks, strengthening risk control system,and improving the regulatory system. In this way,we can improve the rural banking system and promote the development of rural banking system in Heilongjiang Province effectively.

7. References

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